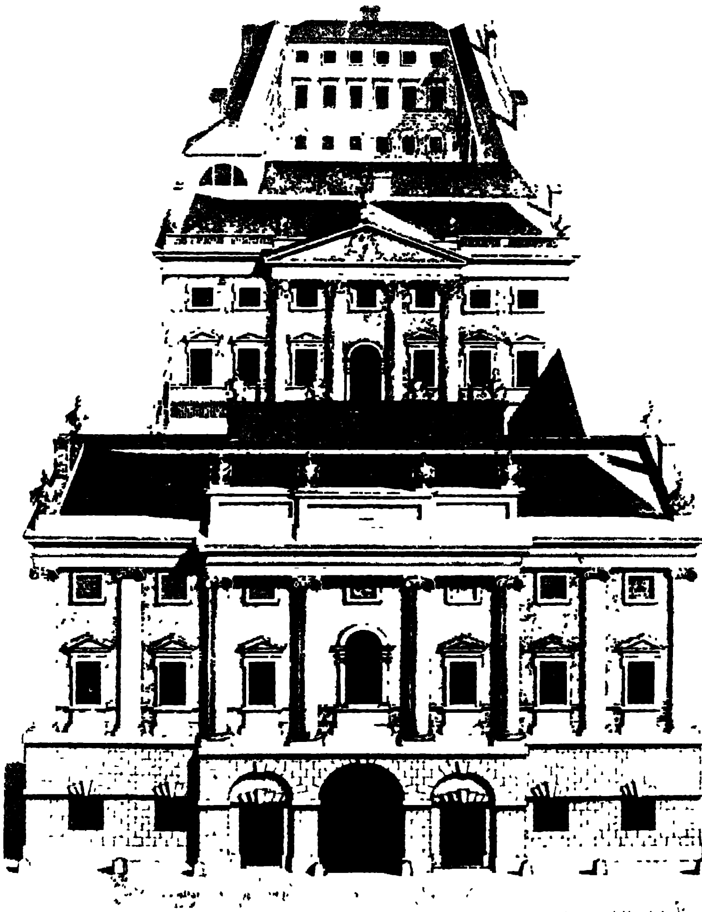
THE STORY OF THE BANK OF ENGLAND



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A PERSPECTIVE VIEW OF THE BANK OF ENGLAND, 18TH CENTURY

THE STORY OF THE BANK OF ENGLAND

FROM ITS FOUNDATION IN 1694 UNTIL THE PRESENT DAY

By
WILLIAM DODGSON BOWMAN
AUTHOR OF: THE STORY OF "THE TIMES," THE DIVORCE CASE OF QUEEN CAROLINE, THE ORIGIN OF SURNAMES, WHAT IS YOUR NAME?, ETC., ETC.

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A
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BOOK

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THIS BOOK IS DEDICATED

TO

SIR ALFRED BOWER (BART.)

whose devoted life of public service was recognised by his election to the position of

LORD MAYOR OF THE CITY OF LONDON;

the City which has ever given to the Bank of England through the centuries of its existence, loyal friendship and unwavering support.

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CHAPTER I

EARLY BANKING

After more than two centuries of progress the Bank of England has become one of the most powerful and firmly entrenched of world institutions. The rival Banks that saw its birth have long since disappeared. Through long years of change and vicissitude it has slowly gathered strength, until to-day it stands as the symbol of Britain's integrity and stability.

There is not a Chancellery in Europe where its influence is not felt, not a Mart in the uttermost parts of the Earth where its policy is not weighed. It has buttressed Kingdoms and Empires, and saved untold millions from the consequences of folly. Its beacon light has blazed the path of prosperity ; and in days of gloom guided the steps of the stumbling.

Yet, incredible as it may seem, it is none the less true, that the Act which gave the Bank of England its legal status was passed by Parliament for the sole purpose of freeing an English King from temporary financial embarrassments.

Those who projected and truly laid the Bank's foundations, believed most firmly in its mission and ultimate triumph. But to William III and

his Ministers, the need for immediately raising £1,200,000 was motive sufficient for establishing the Bank. Doubtless Montague, William's great Chancellor of the Exchequer, knew that the new Bank would double the country's financial resources; but to William of Orange, obsessed by his purpose of diminishing the power of Louis XIV of France, and maintaining the liberties of the Netherlands, the existence of the Bank was only a matter of secondary importance.

Those dying years of the seventeenth century witnessed momentous changes. The Churchman and the Squire still ruled the countryside. Territorial magnates monopolised the offices of State. They ruled the House of Lords, and the Members of the Commons House of Parliament were their hirelings. Corruption was everywhere—in the market as in the Senate. Goldsmith usurers grew fabulously rich on the high interest they charged for borrowed money. Merchants prospered on the profits of the Slave Trade. Trade monopolists flourished, and Kings and Princes shared the plunder they amassed. Only the people had no privileges, save those of paying taxes and tithes. Like the landless men who fought for their native land at Blenheim and Ramillies, they had neither voice nor vote in national affairs. The agricultural labourer was little better than a serf, while the coal-miner was a chattel—bought and sold with the coal-mine he worked in.

Yet the corruption and lack of morals that

marked the Revolution era were general, but not universal. There were true men in all classes of society—through whose faith and effort future generations were to reap incalculable benefits. Already in several directions forces were at work, that in time to come would destroy the existing order. Among these was this new temple of commerce that was arising in the City, in which honesty and fair-dealing were to take the place of deceit and sharp practice.

Of the new institution there was urgent need. England's commerce had expanded so rapidly in recent years that its mechanism of exchange was quite inadequate. The services of the goldsmith-bankers were unsatisfactory and costly. Their rates of interest were exorbitant; they made unfair profits on exchange. Moreover, they were unable to offer that complete security requisite to an International money-market. This, only an institution like the new Bank of England could ensure.

Though similar in its general features, the London that first knew the Bank of England was strangely different to the City of to-day. Then, it was a place of residence, and noble, merchant, tradesman and artisan lived and slept within sound of Bow Bells. Since the Great Fire of thirty years before, many of its dwellings had been rebuilt, and to the foreigners who gathered in Lombard Street and Change Alley, it had a more modern aspect than Paris or Amsterdam. Though more picturesque than those of to-day, its streets were dirty

and insanitary, and the gaily caparisoned horses drawing the gilt coaches of the gentry, lumbered heavily through the mud and filth of the roadway. For those who liked to breathe country air and escape the stench of the City, there were pleasant walks through the lanes and woods that led to the villages of Hampstead, Highgate, Paddington, Kilburn and Streatham.

For the majority of people, the life of the City was all-absorbing. In their counting-houses merchant adventurers matured plans that would win them harvests from many lands. Others, on the Exchange sought news of ships they had insured, or cargoes from which they expected profit. At Garraway's and Jonathan's shady promoters rigged the share-market and concocted schemes for trapping the unwary investors.

These were days of uncertainty and excitement. No one knew what would happen on the morrow. There was talk of civil war. The Dutch King was gloomy and unpopular. The High-Churchman and the Squire were for the Stuart Pretender, and longed for his return. They resented the influence of William's friends in affairs of State and openly sympathised with the French King in his campaigns against England and Holland. In the lobbies of the House of Commons, placemen discussed the war in Ireland and the prospects of a Jacobite rising in England. The Revolutionary leaders and their Whig supporters were equally disturbed, especially by the plots of English statesmen, who

were in active correspondence with the Pretender in France.

On the surface, however, the life of London went on with its accustomed placidity. Dandies in periwigs and lace ruffles drank and gambled in the coffee-houses and talked scandal at routs and assemblies. Crowds watched Their Majesties walking in the Mall. Men of quality resorted to the Exchange where they met their friends and bought presents for their wives and sweethearts. Groups of soldiers, Dutch and English, monopolised the side-walks and chattered noisily about the last campaign in Flanders; while sportsmen and pleasure-seekers sought for excitement to their taste at the cockpit, Spring Gardens and the Playhouse. There was also, for the mob the doleful spectacle of condemned criminals being carted to Tyburn.

It was amid scenes like these that, in the short autumn days of 1694 a number of grave City men met regularly at the Mercers' Chapel to discuss matters of vital importance to the State and the world of commerce. They were men of immense influence in the City, and deeply versed in the tangled policies of the age; but their special province was commerce, of which they had long and varied experience.

They had undertaken tremendous responsibilities, which must have sat heavily, even on their capable shoulders; and by influence had induced a body of shareholders to subscribe £1,200,000 in

a new Corporation. This money—an immense sum for those days—they had lent to the Government in return for the privileges of establishing a Bank and issuing paper-currency to the amount of the money lent. This seemed a perilous enterprise, for the good faith of the debtor was the only security the proprietors had. But to Sir John Houblon and his colleagues this was enough, and they essayed the task of building the framework of the new Bank of England, deciding the regulations under which it was to work, and so shaping its policy, that it fitted into trade conditions.

So successfully did they accomplish this work that now, after the lapse of centuries, the Bank of England is one of the chief buttresses of world commerce and an asset of priceless value to the British Empire.

Six years before, James II had fled the country like a thief in the night, and with him had disappeared that Royalist doctrine of "the divine right of Kings to govern wrong." From the Revolution of 1688 emerged new standards of value. Strong sanctions had become weak and the idols that men reverenced, lay shattered in the market-place. The downfall of James II had dimmed the glory of Sovereignty, and neither William III nor his successors, ventured to tread the perilous path that brought Stuart Kings to death and exile.

But if the authority of Royalty had diminished, so had that of Parliament grown, and from the

factions that sought to bend it to their wills had emerged two parties, Whig and Tory, which for many generations were to shape the country's policies and influence its fortunes.

We see also the Press, freed from the restraining hand of the Censorship, beginning in a feeble and tentative way the laborious task of moulding and voicing public opinion. But as yet no thinker regarded it as demanding serious consideration.

Two years before the Bank of England opened its doors, the Treasury found in the National Debt which was then established, a ready means of putting off the evil day of settlement, and transferring present burdens to the shoulders of successors.

But as some compensation for this, we note also the development of a new Treasury system. This efficient and business-like system we owe to the fertile mind of William's brilliant Chancellor of the Exchequer, Montague. Afterwards, in the reign of Queen Anne, this method of handling the nation's treasure was brought to the fine flower of perfection by the zeal and patient labours of Godolphin. Under this system the claims of conflicting interests were reconciled, abuses of farming the taxes were abolished, and the collection and appropriation of revenue, as well as the expenditure on supplies, were brought under the absolute control of the House of Commons. Through this tightening of financial control, coupled with the aid of its new instrument, the Bank of England, Great Britain

was able to hold her position through a century of almost interminable warfare; and when the industrial era came, to seize the golden opportunity it offered, and become the leading commercial nation in the world.

In his History of England, Macaulay states that "in the reign of William III old men were still living who could remember the days when there was not a single banking-house in the City of London"; and he goes on to say that "so late as the time of the Restoration every trader had his own strong-box in his own house, and when an acceptance was presented to him, told down the crowns and caroluses on his own counter." Macaulay's love for the picturesque and telling phrase sometimes led him into error, and in the statements just quoted he has certainly gone astray. The historian's "old men" who in 1688 could remember the days when there was not a single banking-house in the City, must have reached patriarchal ages, for the Bank of Child & Co., in Fleet Street, had been established as far back as the year 1559; whilst Martin's Bank at the sign of the "Grasshopper" in Lombard Street, is said to have also been founded in the reign of Queen Elizabeth.

There are several other goldsmith-bankers whom Macaulay's old men might have remembered. Honest Jeremiah Snow, who received deposits and paid out money at the sign of "The Golden Anchor" in Cromwellian and post-Restoration

days, founded a business, which still carries on under the direction of The London and Westminster Bank. Another famous banking business, when Cromwell and the Long Parliament ruled England, was that carried on by Major Henry Pinckney at " Ye Three Squirrels." There was also Alderman Edward Backwell, goldsmith-banker to both Cromwell and Charles II, whose stupendous transactions showed him to have been one of the wealthiest and boldest speculators of his era. The banking business of Sir Robert Vyner was almost on as great a scale, and among the hundreds of depositors whose names figure in his books are those of people of every degree, from bishops and noblemen, down to retail tradesmen like dyers, saddlers, drapers and butchers. So much then for Macaulay's statement that merchants then kept their money in strong-boxes.

Some Continental Banks had been established long before the earliest of the English goldsmith-bankers took up the business. One there was which first opened its office in Barcelona in the year 1400, and another, the St. George, at Genoa, which was founded in 1453. The private banks of the Lombard Jews are of still greater antiquity. The proprietors of some of these came over to London and settled in the street of Banks, which is still known as Lombard Street. The Bank of Amsterdam was comparatively modern and but eighty years old when the Bank of England was established. But it had weathered storms, that had

reduced Holland to the verge of national bankruptcy, and to the commercial world its stability seemed the one certain thing, in an age of unrest.

Until the year 1640 there was little banking in England, in the modern sense of the term. Merchants and wealthy traders were in the habit of depositing their stocks of bullion and coin in the vaults of the Tower of London. This accommodation rendered Banks of deposit unnecessary. In this year, however, a characteristic violation of the rights of his subjects, by Charles I compelled the mercantile classes of London to alter their easy-going business methods and establish a modern banking system. The King was in urgent need of funds for his war with the Scots. Parliament refused him any aid. His attempts to borrow money abroad were equally fruitless. In desperation he resorted to the old and stupid device of debasing the coinage.

The announcement of this proposal roused a storm of angry protest. Endeavouring to profit by the popular indignation, the King sent a message to the City stating that if the City of London would lend him £200,000, the coinage proposal would be dropped. But the Common Council replied through their representatives, that they had no power to dispose of the citizens' money. So orders were sent to the Mint to coin £300,000 of shillings, each containing three-pennyworth of silver. When it was known that the King had issued the order there arose such an outcry from all side that His

Majesty became alarmed and cancelled his instructions. Charles was ever ready to treat his subjects unjustly, but lacked the courage and determination to do so when they showed a disposition to resist him. As more than one historian has pointed out, Charles drew on himself all the unpopularity of his proposed action, without gaining any of the advantages that might have resulted from it.

Baulked by the stubborn temper of his subjects, the King's need was still as desperate as ever, and he looked around for easier prey. At this period a large and profitable trade in bullion was carried on in London and many Continental merchants sent consignments of the precious metal for sale in the English markets. Just at this juncture a package containing £130,000 arrived from Spain. The merchants who were responsible for its sale, lodged it for safety in the Tower of London.

The King saw in this the chance of revenging himself on the merchants and obtaining most of the money he needed. The bullion was seized.

The merchants were panic-stricken when they heard of the robbery, for this meant not only the loss of this large sum, but also the loss to London of its international money-market. A City meeting was at once held, and a vehement letter of protest sent to the King's minister, Strafford. Much wrangling ensued, after which Charles agreed to give back the bullion seized, in return for a loan of £40,000; the Customs receipts being the security for the payment of interest and capital.

These remarkable interpretations of the Divine right of Kings made so disagreeable an impression on the minds of London citizens that they resolved to act without further delay and put it out of the King's power to steal their property. They carried their stock of gold and silver to the goldsmiths' shops in Lombard Street and elsewhere, receiving in exchange goldsmiths' notes. The clergy and the landed classes followed the example of the traders. The goldsmiths, whose business had hitherto been limited to a small and select clientele, saw before them dazzling prospects of fortune. The sale of trinkets and gold and silver ornaments became a comparatively small part of their trading. Money poured in from all sides. Noblemen, clergy, soldiers and sailors, country squires, widows and petty tradesmen carefully counted up the hoards hidden in strong-boxes and carried them to the goldsmiths. In a short time these bankers found themselves in command of large sums of money, that enabled them to trade on a scale hitherto undreamt-of.

The money deposited, on which the goldsmiths paid a low rate of interest, they made profitable use of, for the discount of bills and loans at high rates. Promissory notes, which circulated freely, were issued, and a thriving trade was done in exchanges. The large quantities of Dutch, French and Portuguese coin that came into the country at this period, made the business of exchange especially profitable, the coins being melted and made

into plate. In a pamphlet published in 1643 on the "Transportation of Gold and Silver Bullion" we read: "Hambrough merchants bring great quantities of Rix-dollars from Hambrough and other parts of Germany and pay no Custom . . . which the merchants usually sell to the goldsmiths, and the goldsmiths for the most part sell to the merchants that trade in Norway and Denmark, which dollars are closely packed in some part of the ship and so no Custom is paid."

So we find the goldsmiths evolving from the position of moneylenders in the early days of the seventeenth century, into deposit-bankers and money-changers, before the quarrel between King and People ended in Civil War. The clash of Cavalier and Roundhead that brought loss and ruin to many, only served to strengthen the goldsmith-bankers' position. The timorous and feeble trembled for their possessions and hastened to put them in the safe-keeping of these obliging money-changers.

Under Puritan rule several of these bankers grew enormously rich; and Cromwell, the Lord Protector, was glad to have their help in straightening out the disordered finances of the country. For this purpose he availed himself of the services of Alderman Edward Backwell of the "Unicorn" in Lombard Street, and Sir Francis Child of Fleet Street.

But though the banking business continued to flourish and extend, all was not plain sailing. As

in other trades and professions, there were black sheep among the flock. Sudden prosperity had a demoralising effect on some, and the large sums of money they held, tempted them to embark in hazardous speculations, which brought them to ruin; others came to grief through the dishonesty of their clerks. There were bloodsuckers among them, also, who charged exorbitant rates of interest and treated their clients with merciless severity. This class, that included some who lent money to Charles II after the Restoration, brought unpopularity to the general body of goldsmith-bankers and made them a shining mark for the pamphleteers.

Samuel Pepys has much to say of the misdoings of these people, in his Diary. From an entry for January 19, 1663, we find: "Singled out Mr. Coventry . . . and told him the complaints I meet with every day about our treasurers' or his people paying no money, but the goldsmiths' shops, where they are forced to pay fifteen or twenty sometimes per cent. for their money, which is a most horrid shame, and that which must not be suffered. Nor is it likely that the Treasurer . . . will suffer Maynell the Goldsmith to go away with £10,000 per annum, as he do now get, by making people pay after this manner for their money."

The goldsmiths had some excuse for charging the Merry Monarch a high rate of interest. They knew that in lending him money they were engaging in a risky speculation; and his method of spending

the money they advanced, should have warned them that he had but the haziest notion of his obligations, and that they might have cause to regret their liberality. But for a time all went well for the goldsmiths. The King got completely into their hands. They took up his debts and tallies, on which, as Pepys and other writers state, they charged as much as 20 per cent., and also gained partial control over the greater part of the revenue, by making advances on Parlamentary grants as soon as they were passed by the House of Commons. The money thus obtained, instead of being spent on the service of the State was squandered in reckless dissipation.

The folly of this was soon apparent. When in 1667, Holland and France joined forces against England, Charles II was utterly unprepared to carry on offensive warfare, and the coast towns of England, and even London itself, were at the mercy of the Dutch. Parliament had voted large sums for the Fleet and the fortifications of the Thames; but there were neither ships, nor men, nor guns, to withstand De Ruyter when he sailed up the river, took Sheerness, and burned the English ships at Chatham.

The glare in the sky from the burning ships in the river, warned Londoners that their city was doomed. As in all times of excitement, the tongue of rumour was busy. When they heard that an army had landed at Gravesend, and that the Tower of London was to be abandoned, the alarmed

inhabitants gave way to despair. The more timorous packed their belongings and prepared for flight. Nobody believed that the goldsmiths could possibly escape ruin; all the depositors' money was in the hands of the King. In the hope that something might yet be saved from the deluge, depositors of all classes besieged the goldsmiths' shops and demanded the return of their money. Now the goldsmiths were far from being insolvent, though, like modern bankers, they were not prepared to meet all their liabilities in ready-cash. They paid off the most pressing of their creditors, and made arrangements for future payments, with others. They also demanded help from the King's Government.

In accordance with their wish, a Royal Proclamation announcing that payments from the Exchequer would be made as usual, was made, and His Majesty further pledged his word that "We will not upon any occasion whatsoever permit or suffer any alteration, anticipation, or interruption to be made to our said subjects."

This first "run on the bank" in English banking history ended as suddenly as it began. People quickly discovered that the stories of invasion, and the abandonment of the Tower, were only lying rumours. The King's Proclamation banished the last vestige of mistrust, and within a few days the goldsmiths were carrying on business as usual.

Here it is interesting to note the record in Pepys' Diary of a conversation that took place two months

after this run on the banks, at the dinner-table of Sir G. Carteret in Lincoln's Inn Fields. Pepys often spoke bitterly of the goldsmiths, but, as this passage shows, he recognised their merits:

"And there dined with him and his lady my Lord Privy-Seale (John, Lord Roberts), who is indeed a very sober man: who, among other talk, did mightily wonder at the reason of the growth of the credit of bankers (since it is so ordinary a thing for citizens to break out of knavery). Upon this we had much discourse; and I observed therein, to the honour of this City, that I have not heard of one citizen of London broke in all this war, this plague, or this fire, and this coming up of the enemy among us: which he owned to be very considerable."

Soon after De Ruyter's raid on the Thames, the Treaty of Breda put an end to the conflict between England and Holland, and for five years this country was at peace with her eastern neighbour. Charles did not care for war. It interfered with his pleasures. He found more satisfaction in spending money on his mistresses, than in laying it out in soldiers and armaments.

But he could never resist the lure of money; and when in 1670 he sought from Louis XIV a "protection," His Majesty of France readily responded, and the Treaty of Dover was signed. By this Treaty—which was kept secret from all but two of his Ministers—Charles agreed to announce his change of faith and to join France in an attack on

Holland. In return for this he was to have two million francs, and three million annually during the war.

Having successfully tapped one source of supply, he proceeded to make use of a second, and through his spokesman in the House, induced Parliament to vote him a subsidy of £2,100,000; £800,000 of which was for the equipment of the Fleet. The purpose of this vote was to bring the military and naval standard up to that of France or Holland. The English Parliament feared and distrusted Louis XIV, and the French King, in his turn, like the clear-sighted diplomatist that he was, dreaded the influence of the English Parliament on King Charles' government. By working on the fears of these antagonistic forces alternately, Charles cleverly contrived to extract money from both. This policy he pursued successfully for several years.

But in the meantime there were financial difficulties to be solved. In 1672, according to the terms of the secret Treaty, Charles had to join forces with Louis in the war with Holland. It was an embarrassing situation for the English King. He had dissipated the money voted by Parliament for the Navy, on his own amusements, and was without funds for fitting out his ships.

With an indifference to national interests that would not be manifested by any but a Stuart King, Charles decided, without warning, to suspend all payments from the public Treasury. At this time

the Government owed £1,300,000 to the goldsmiths; an amount equal to eight months of the country's revenue. This cynical disregard for the welfare of the goldsmiths, who had helped him in his need, is all the more remarkable when we recall the Proclamation of five years before, in which "on our Royal word and declaration" he promised that payments from the Exchequer would be made as usual, and that on no occasion whatsoever would he "permit or suffer any alteration, anticipation, or interruption to be made to our said subjects."

The announcement struck the City with the sudden violence of a tornado. Through this cynical action thousands of honest, industrious people found themselves stripped of their possessions and reduced to beggary. Several of the leading goldsmith-bankers were heavily involved, and all of them, as a protective measure, closed their shops and suspended payment. A general collapse followed, and more than ten thousand merchants and other traders became insolvent.

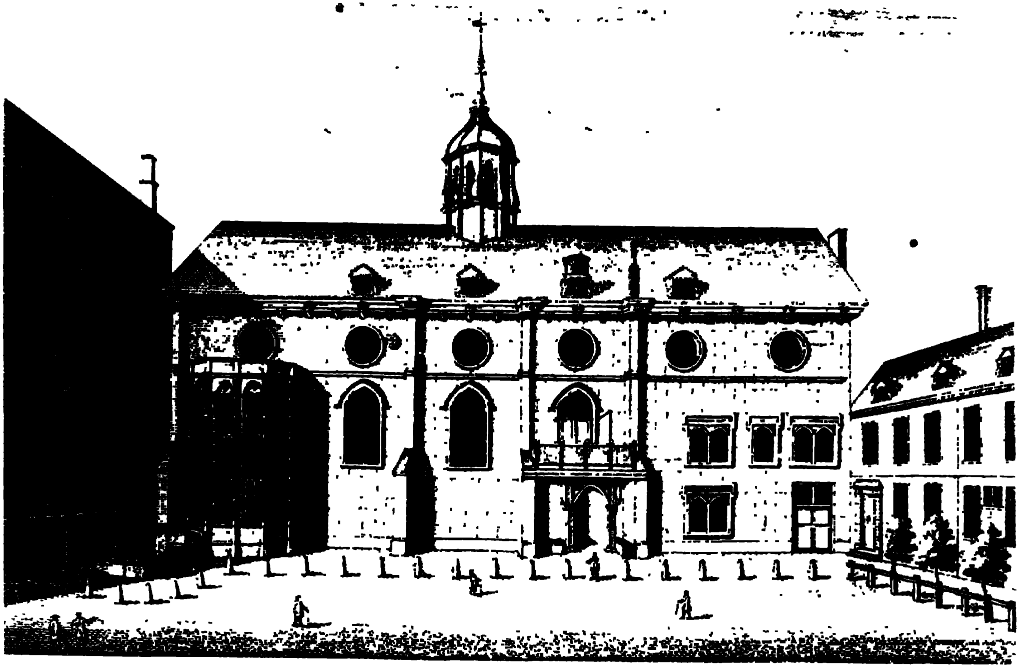
Alarmed by the public distress, Charles and his Ministers made some efforts to mitigate the effects of the catastrophe. The King summoned the goldsmiths to his presence and cajoled them with many promises. He described the theft of their money as a "forced loan," on which he promised to pay 6 per cent. interest; and persuaded them to resume business relations with their depositors. He also assured them that in six months Treasury payments would be resumed. This was cold comfort

to a banker like Sir Robert Vyner, whose bill amounted to £416,724 ; but he and his colleagues promised to accommodate the merchants and other depositors.

To his credit be it said, Charles did make some effort to redeem his promises. Parliament was asked to provide the money for repaying the goldsmiths ; but as the House of Commons had only recently paid £1,300,000 of the King's debts, they refused to take on this added burden. The debt was never repaid, but until 1683, 6 per cent. interest was regularly paid on it. With the coming of the Revolution these payments ceased. Much litigation followed, which further depleted the funds of the goldsmiths, and brought a golden harvest to the lawyers.

Though the Crown counsel had, by submitting legal quibbles, succeeded in defrauding the goldsmiths of their just dues, the creditors persisted in pressing their claims. During the reign of William III their efforts were abortive. But in 1701 an Act of Parliament was passed, charging the hereditary Excise with a yearly interest of 3 per cent. payable from 1705, on a moiety of the original capital. An inequitable provision of this Act was that these 3 per cent. annuities were to be reckoned as redemption, and were to cease when £664,263—half the original capital—had been repaid.

From first to last it has been estimated that this little group of early bankers lost nearly three millions of money through Charles' act of bad faith.



THE BANK OF ENGLAND IN THE POULTRY 18TH CENTURY

The goldsmiths principally affected by this settlement were Sir Robert Vyner, to whom £416,724 was owing; Alderman Backwell, whose account was £295,994; and G. Whitehall, £248,866. But several whose names are famous in early banking history, like Sir Francis Child, Major Pinckney, Humphrey Stokes, Richard Hoare, Jeremiah Snow and George Middleton, were, happily for themselves, not among those to whom King Charles owed money.

The great development of England's export trade under the rule of Cromwell and Charles II, caused a constantly growing demand for improved exchange and credit facilities. The monopolies of English Trading Companies in India and America, the expansions of our Continental trade, and the operation of the Navigation Act, added enormously to the wealth of the country, and made those who had surplus cash more and more dependent on the goldsmith-bankers.

The goldsmiths, however, were anything but popular. General merchants found their rates oppressive, while poor people were unable to obtain loans at less than 33 per cent. and were lucky if they were not asked considerably more. These restrictive rates were a great hindrance to trade and a check on the growth of banking. They also caused a growing demand for those improved facilities of exchange and greater security, which a national, or strong joint-stock Bank alone could give. The many pamphlets published on the

subject in the reign of Charles II demonstrated the keen public interest in banking methods during that period. Some of these advocated Land Mortgage Banks; others recommended the establishment of a Bank on the model of the Bank of Amsterdam. Many of the projects outlined by these Stuart economists were fantastic and impracticable. But all recognised the need of some change in the existing system. There was also a consensus of opinion that under the rule of Charles II the danger of confiscation would render the establishment of a National Bank too hazardous an enterprise. Even in the early years of the King's reign this danger was realised, as is shown by an entry in Pepys' Diary for August 17, 1666:

"Sir Richard Ford did, very understandingly methought, give us an account of the original of the Hollands Bank, and the nature of it, and how they do never give any interest at all to any person that brings in their money, though what is brought in upon the public faith interest is given by the State for. *The unsafe condition of a Bank under a Monarch*, and the little safety to a Monarch to have any; or Corporation alone to have as great a wealth or credit, it is that makes it hard to have a Bank here. And as to the former, he did tell us how it sticks in the memory of most merchants how the late King (Charles I)—when by the war between Holland and France and Spain all the bullion of Spain was brought hither, one third of it to be coyned—was persuaded in a strait . . . to

seize upon the money in the Tower: which though in a few days the merchants concerned did prevail to get it released, *yet the thing will never be forgot.*"

At the time this was written the raid of Charles II on the Exchequer had not taken place, so that we see that the actions of Charles I and his son, were as danger-signals to those who contemplated the establishment of a National Bank.

But with the Revolution of 1688 this danger disappeared.

Who founded the Bank of England? To say, as many writers do, that the credit of this achievement belongs to William Paterson of Trailflat, Dumfries, is to give that courageous and enterprising Scotsman a greater meed of honour than is his due. He was undoubtedly one of the founders of the Bank, and it was the scheme that he formulated which was accepted by King William's Government; legalised in an Act of Parliament, and ultimately embodied in a Corporation known as "The Governor and Company of the Bank of England." But without the assistance of others, this result could not have been attained; for this was the third of his proposals for the establishment of a Bank, the first two of which had failed for lack of support. In company with other City merchants, he had offered to lend the Government a million pounds, in return for the privilege of founding a Bank, but a Committee of the House of Commons rejected his proposition. In a second scheme he offered a loan of two million pounds, but again his efforts ended in failure.

For a time it seemed as though Paterson would have to abandon his Bank scheme, dear as it was to his heart. Then fortune favoured him. He was called as chief witness before a Parliamentary Committee, to give evidence on the best methods of raising supplies; and at St. Stephen's he met Montague, then one of the Commissioners of the Treasury, and destined soon to control the country's financial affairs as Chancellor of the Exchequer. Montague, who himself understood the complexities of economics as well as any man of his time, recognised that Paterson was a genius. Encouraged by his sympathy and the promise of his powerful support, Paterson amended his scheme. Under Montague's guidance, the plan of the new Bank was embodied in the Tonnage Bill and piloted through Parliament, in spite of the bitterest and most determined opposition.

Though the Bank had obtained legal sanction, it was still but a paper project, for the Capital of £1,200,000 had still to be raised. In this Michael Godfrey, a wealthy merchant of great influence in the City, proved himself a tower of strength. His help was as useful to Paterson in the City as that of Montague in Parliament, and the money required was easily raised.

Paterson was elected one of the first Directors of the Bank.

Of this man, who migrated from a lonely farmstead in Dumfriesshire, and afterwards was instrumental in founding our greatest financial institution,

little is known. The information we have is much to his credit, and only few of those whose names are blazoned on the scroll of Fame have rendered the State such solid and valuable services as this obscure adventurer.

He was a man who inspired trust. William of Orange, who looked coldly on most of his English advisers, always received Paterson, and often called him into council on important matters of State. He also instructed him to make written records of several of his schemes. In these documents Paterson formulated a number of financial reforms, which bore fruit in 1717 when the National Debt was consolidated ; and again in later years when Walpole's Sinking Fund was established.

Little more than an outline picture can be given of this remarkable man. Defoe maintains that in the unfortunate Darien Expedition, of which in later years, Paterson was the chief promoter, he nearly lost his life, and that throughout this enterprise he displayed steady courage and amazing energy. We have also Defoe's significant assurance that : " his fellow-countrymen never blamed him for their common failure, disastrous though it was for Scotland. Dumfries elected him a member of the first United Parliament. The last Scottish Parliament had already recommended him to Queen Anne on account of his good services."

He was a wanderer from his early years and seems to have found it difficult to settle down into the prosaic life of an ordinary citizen. After his first

voyages to the West Indies he sojourned for a while in Amsterdam, where English politicians were carrying through the tortuous intrigues that preceded the Revolution. In his journeys he appears to have amassed money, for when he settled in London after William and Mary came to the Throne he was reported to be wealthy.

A year after the Bank of England was founded he resigned his Directorship owing to some misunderstanding with his fellow-Directors. On this quarrel—if it was a quarrel—he never made any public statement; though several years later (in 1709) he mentioned, in a petition to Godolphin, the Lord Treasurer, the services he had rendered, and complained that he had received no recompense for the expenses he had incurred.

In his later years he suffered poverty; but his friends did not desert him. In 1715 at the suggestion of George I, Parliament voted Paterson the sum of £18,241, as compensation for his losses in the Darien expedition. This money he received in 1718, shortly before his death.

The early period of William and Mary's reign was full of anxieties for King and Parliament. William's feud with Louis XIV added a heavy weight to England's burdens. In addition to the war with France, there were rebellions in Scotland and Ireland.

Though the nation was heavily taxed, the revenue was scarcely sufficient to meet its liabilities on a peace basis. For a country at war it was utterly

inadequate. The revenue was diminished by corrupt administration in all departments of State. Of the Commissioner-General in the Irish campaign, Macaulay says: "The beef and brandy which he furnished were so bad that the soldiers turned from them with loathing: the muskets broke in the handling: great numbers of shoes were set down to the account of the Government, but two months after the Government had paid the bill the shoes had not arrived in Ireland." The historian also states that horses which should have been sent to Ulster for the soldiers were let out at a profit, to the farmers of Cheshire, by this rascally Commissioner. The sailors in the Fleet suffered in the same way, through the greed of the Naval administrators.

Unlike his predecessors, the King was not indifferent to this maladministration, and he did much to check corruption. But he was in a difficult position. A considerable part of the English people, and that comprising the landed class, regarded him as an alien, and resented his presence in England; so that he had to proceed with caution.

Parliament also added to the King's difficulties by voting supplies for short periods only, instead of for a year as in previous reigns.

In their desperate need, the King and his Ministers resorted to some extraordinary expedients for raising money. A Tontine, a speculative investment which for a period was to yield the investor

10 per cent., brought in altogether £881,493. A Lottery secured a further million. The King also asked the City for the loan of £100,000. Ministers of the Crown and City Aldermen personally canvassed the merchants and shopkeepers, in order to raise this amount; and hat in hand, besought them to support the country's credit with their surplus cash.

But these and other extraordinary methods of raising money, did not bring in sufficient to meet war expenses. A million was still needed; and Montague, now Chancellor of the Exchequer, felt that the time was ripe for bringing Paterson's third scheme for the establishment of the Bank of England, to the notice of Parliament.

According to this plan, it was proposed to raise a sum of £1,200,000, all of which was to be lent to the Government. In return for this loan, the subscribers were to receive a yearly interest of £100,000. It was further provided that the subscribers were to form a Corporation, which was to have the right to issue notes up to the value of the total capital. This Corporation was to be known as "The Governor and Company of the Bank of England."

The clauses embodying these proposals, which were tacked on to a measure known as the Tonnage Bill, were coldly received by the House of Commons, and excited alarm and opposition among some sections of the community.

The opposition in Parliament was quickly

stifled. Money was urgently needed, and there was no other source from which it could be obtained. The measure passed the Commons without a division. In the House of Lords, after a hot debate the Bill was passed, unaltered, by a majority of twelve votes.

There was no public interest in the passing of this measure, except among those who were directly affected by its provisions. No one saw in it the beginning of a new era in world commerce. " It was," said Macaulay, " not easy to guess that a Bill which purported only to impose a new duty on Tonnage for the benefit of such persons as should advance money towards carrying on the war was really a Bill creating the greatest commercial institution that the world has ever seen."

The Act authorising the establishment of the Bank was entitled " An Act for granting to Their Majesties several Rates and Duties upon Tunnages of Ships and Vessels and upon Beer, Ale and other Liquors; for securing certain Recompenses and Advantages in the said Act mentioned, to such persons as shall voluntarily advance the sum of Fifteen hundred thousand Pounds, towards carrying on the war against France."

The Act authorised the promoters to raise £1,200,000 by subscription, the subscribers forming a Corporation to be called " The Governor and Company of the Bank of England."

It was further stipulated that the whole of the capital of this Corporation was to be lent to the

Government, for which loan the Corporation would receive interest at 8 per cent. and £4,000 for expenses of management; in all £100,000 per annum.

The Corporation was to hold its Charter for a period of twelve years, the Government reserving the right to annul the Charter, after giving one year's notice to the Company.

The Corporation were forbidden to trade in any merchandise whatever, but were "allowed to deal in bills of exchange, gold or silver bullion, and to sell any wares or merchandise on which they had advanced money, and which had not been redeemed within three months after the time agreed upon."

The Bank was expressly forbidden to borrow or owe more than its Capital.

No person might subscribe more than £10,000 before July 1 following, and after that date, no individual subscription might exceed £20,000.

To meet the views of some of the Whigs, who feared that the establishment of the Bank might make the King independent of Parliament and so lead to absolute monarchy, a clause was inserted in the Act, prohibiting the Bank from lending money to the Government, without the express authority of Parliament. The wisdom of this clause was proved a century later, when—as we shall see—William Pitt ignored it, and by so doing brought the Bank to the brink of ruin.

Temporary premises for the new Corporation

were taken at the Mercers' Chapel, where the subscription-list was opened on Thursday, June 21, 1694. In attempting to raise £1,200,000 for an untried venture, the promoters were, in the opinion of many City people, essaying an almost impossible task; and in the coffee-houses as well as political circles there was much eager gossip about the Bank and its prospects of gaining the Capital needed. But there was no doubt about the success of the issue, for Montague had done his work thoroughly. On the first day there were many large subscriptions, and among them was one from Queen Mary for £10,000. A few Whig peers, and Members of Parliament followed her example; but the bulk of the money was subscribed by great houses in the City. The first day's subscriptions totalled upwards of £300,000.

To encourage capitalists, 2½ per cent. rebate on the amounts subscribed was allowed on the first three days, and 2 per cent. on those received on the 25th.

On the first four days £900,000 was promised, and the balance was made up a few days later. Montague was jubilant at the success of the issue and predicted a great future for this new institution. On July 27, the Bank's Charter of Incorporation was granted. According to the terms of this document, the management and government of the Corporation was committed to the Governor, Deputy-Governor, and twenty-four Directors. It was also laid down that these officials must "be

natural-born subjects of England, or naturalised subjects; they must also have in their own name and for their own use, severally, viz., the Governor at least £4,000; the Deputy-Governor £3,000, and each Director £2,000 of the capital stock of the said Corporation." A further provision was "that no dividend shall at any time be made by the said Governor and Company save only out of the interest, profit, or produce arising out of the said capital stock or fund."

The officers of the Bank remained at the Mercers' Chapel for some months, while the preliminary business connected with incorporation and organisation of staff was completed. Afterwards the hall of the Grocers' Company became the head-quarters of the Bank, and here the doors were thrown open for public business on January 1, 1695.

According to Francis, who wrote a history of the Bank of England in 1848, the Bank was not an imposing establishment in the earliest years of its existence. "The secretaries and clerks altogether numbered but fifty-four; while the united salaries did not exceed £4,350." All the business, it appears, was done in a single room, and with a primitive simplicity that amazes the modern banker; yet with a meticulous care for detail that wins his admiration. "I looked into the great hall," says Addison in No. 3 of the *Spectator*, "where the Bank is kept, and was not a little pleased to see the Directors, secretaries and clerks

. . . ranged in their several stations according to the parts they hold in that just and regular economy," and so the dear old *Spectator*, with his zest for life in its variety of phases, smiled his benediction and passes on to other scenes.

The establishment of the Bank altered political values. The Tories declared that it "enslaved" the Constitution to the Whig monied interests. This was but the view of a prejudiced and embittered faction. That it was founded for the benefit of the King and his Whig supporters cannot be denied. But this was only a temporary phase. From the first it freely gave its financial support to any and every Government, and frequently did so by sacrificing the interests of its proprietors.

The foundation of the Bank imposed a further limitation on the power of the Sovereign, and added to that of the Commons House of Parliament. Instead of voting supplies to be spent at the Royal pleasure, the country's revenues were now controlled by the Treasury, under the supervision of the Lower House. This increase of economic strength also diminished the authority of the House of Lords, and made the House of Commons dominant in affairs of State.

The Bank of England was also a visible token of the rapidly growing wealth and prosperity of the merchant class. In days not far distant, the wealth of England had consisted only in Land, House Property and Wool. But the enterprise of merchant adventurers, and the courage and hardi-

hood of explorers and sea-rovers had changed all that. The export trade with European countries and the development of the Colonies had made London a world market, and given her merchants command of vast sums of money. With this commerce they needed a safe repository for their cash, and further facilities of credit. In the following chapter we shall show how these requirements were met.

CHAPTER II

THE BANK OPENS—ITS ORGANISATION

THE outlook for the new Bank was as bleak as the January skies that watched its advent. The English Navy had suffered disaster in its attack on Brest. An attack on the coast was daily expected, and there was much popular discontent. Trading conditions were chaotic, and the lack of a standard of values made business hazardous and speculative. The debased gun-metal money of James II, and the gold and silver tokens, which had been systematically clipped and filed since they were issued in the reign of Queen Elizabeth, formed anything but a safe metallic coinage on which to base a credit currency. In this state of affairs traders did not know whether the bargains they made represented profit or loss.

In this atmosphere of gloom, and uncertainty, merchants were apprehensive, and disinclined to venture on new commitments. Side by side with honest traders were hosts of sharpers and tricksters. Commercial men watched their neighbours with suspicion; and by some, "credit" was regarded as "suspicion asleep."

As at all times when trade is languishing, a section of the public caught the gambling fever.

The lure of "easy money" proved an irresistible attraction to the impoverished landowner and the half-ruined shopkeeper as well as to all who were tired of the humdrum 5 per cents. These gamblers eagerly bought and sold East India and other stocks, while market manipulators at Garraway's Coffee-House carefully elaborated schemes for fleecing these poor dupes.

Dear food and high taxation were also factors that caused anxiety and public unrest. "From 1690 to 1699," says Lecky, "there was hardly a single year of average prosperity. The loaf that in the previous reign cost threepence rose to ninepence."

But these conditions in no way dismayed the founders of the new enterprise. As soon as the original capital had been guaranteed, Sir John Houblon was appointed Governor of the Bank, and Mr. Michael Godfrey as Deputy-Governor. Among the Directors appointed were Sir James Houblon, Abr. Houblon, Sir Wm. Gore, Gel. Heathcott, Sir Wm. Scawen and Wm. Paterson.

The method by which these appointments were settled was as democratic as those followed in more modern times. Notice of a meeting to be held at the Mercers' Hall on July 10, 1694, was sent to all subscriber of £500 and upwards, asking them to take the following oath:

> "I, A.B. do swear that the sum of £500 by me subscribed (or the sum of £500 at least of the money by me subscribed) is my own proper

money, for my own use, and not in trust whatsoever."

After this, every subscriber had "to give in writing, rolled up," the names of two people whom they thought suitable to hold the offices of Governor and Deputy-Governor. On the following day they had to nominate, in the same way, twenty-four persons to act as Directors.

The Houblon brothers, four in number, were sons of a father who had escaped from the Continent to avoid religious persecution. Like others who had suffered for conscience' sake, Houblon senior amassed wealth in London, and for many years was the president of the French colony. The sons also had prospered greatly, and were among the most highly esteemed of London merchants. Pepys, in his Diary, gives an account of a dinner at his house in 1667, at which he entertained these brothers as visitors of distinction, and displayed with evident pride, some "noble" examples of furniture.

When he became Governor of the Bank, Sir John Houblon was already one of the Lords of the Admiralty, and was soon to add to these distinctions that of being Lord Mayor of London.

If not so prominent in public affairs. Michael Godfrey, the Deputy-Governor, was held in as high esteem in the City as Sir John Houblon, and he brought to the Bank many of its most influential clients. His untimely death in Flanders caused a fall in the stock of the Bank of 2 per cent. It was

during the first year of the Bank's existence that Godfrey lost his life. King William was then in the Low Countries fighting desperately to stem the tide of invasion and turn back the armies of Louis XIV. He was always short of money, but just now his need was urgent, and he sent an S.O.S. to the Bank of England for help. The Bank loyally responded, and Godfrey went out to the seat of war to make arrangements with the King for the conveyance of specie to the army. When he arrived, William was closely investing Namur, and Godfrey made all speed to visit him in the trenches. When he was ushered into the King's presence, William rebuked him for exposing himself to unnecessary danger.

" Mr. Godfrey," he said gravely, " you ought not to run this hazard ; you are not a soldier, and can be of no use to me here."

" Sire," replied the Deputy-Governor, " I run no more risk than Your Majesty."

" Not so," said the King. " I am where it is my duty to be ; and I may without presumption commit my life to God's keeping, but you. . . ."

As the King was speaking, a cannon-ball from the ramparts struck Godfrey, and laid him dead at the King's feet.

So passed one of the Bank's founders. Godfrey had done as much as any other to ensure its success, and he had profound faith in its future as a bulwark of the State and of its value to the nation's commerce. Shortly before his death he published an

illuminating pamphlet entitled *A Short Account of the Bank of England*, in which he recorded the benefits the Bank had conferred on the country in the few short months of its existence.

In this essay he showed how shamelessly the goldsmiths had defrauded the people by debasing the coinage, and roundly declared that "if the bulk of the money of the nation, which had been lodged with the goldsmiths, had been deposited in the Bank four or five years past, it had prevented its being so scandalously clipped, which one day or the other must cost the nation one and a half millions or two millions to repair it."

He also pointed out that through the Bank the Government had been able to borrow money at an exceptionally low rate; that it had saved the Treasury considerable sums of money by accepting their tallies at par, whereas, previous to 1694, the most secure of these had been at a discount.

The citizens had also now a place where their deposits would be in security and would bear interest, although the money could be withdrawn at will. In this connection he pointed out that through the bankruptcies of goldsmiths and the disappearance of their clerks the public had lost between two and three millions.

The Bank of England fulfilled its obligations to the Government with remarkable promptitude. Although only £720,000 of the capital had been actually paid up by December, 1694, the whole sum of £1,200,000 was advanced to the Treasury

on or before December 22, 1695—nine days before the Bank opened its doors to the public. Of this sum, £300,000 had been paid in before September 1.

In those early days the Bank made use of several types of paper credit, the most notable of which were the "running cash note," the "accomptable note" and the sealed bill.

The "running cash note" was in form a promissory note made payable to an individual, or bearer, on demand. It passed from hand to hand like the modern bank-note, but, unlike its successor, it bore interest for two brief periods. The sealed Bank bills were printed, and assignable by endorsement and delivery. Like the "running cash notes" they were, at first, interest-bearing. These bills were principally used at first, in transactions with the Treasury; but afterwards they were issued to customers in return for deposits of money. The "accomptable note" was a receipt for deposits, on which clients were empowered to draw notes.

With these and other instruments the Bank, from the first, carried on a large and growing business. Its principal trade was—according to a contemporary writer: Lending money on mortgages—Discounting foreign and inland bills of exchange—Lending money on "pawns"—Lending money at 5 per cent. on Million Lottery Tickets and on the Orphans' Fund.

But this only gives a partial account of the Bank's activities. Its most important and re-

sponsible business was with the Treasury. The sealed Bills and other paper credit issued by the Bank, which were advanced to the Governments on tallies, were paid out by the Treasury to their creditors, and these in their turn presented them at the Bank for payment. The Bank Directors were also in almost daily consultation with the Treasury on Government business. For a time two Directors had also to remain in Flanders in order to attend to exchange business in connection with the payment of the English soldiers.

The Bank also dealt in goldsmiths' notes extensively, but only at the hazard of the people who offered them. These goldsmiths' notes, which the Treasury refused to accept in payments from the Bank, were sent out as soon as received, and cashed by the goldsmiths who had issued them.

Despite the efforts of its many enemies the Bank continued to prosper and prove its value to those who made use of its services. When it had been in existence a year, the stock of the Bank rose to 108 and its friends began to think that all was now plain sailing. But in this they were cruelly mistaken, as events were yet to prove.

All through the Stuart era the English silver currency had been steadily depreciating in value. Many of the coins in use dated from the time of Queen Elizabeth. A considerable proportion were of iron or copper, silvered over. Hundreds of people were hanged at Tyburn for clipping or filing coins, but so profitable was the practice that

no penalty could check or stop it. Many persons made fortunes by this malpractice, as bullion had become so much dearer than coined money, that it was possible to make as much as 20 per cent. by expert manipulation.

The goldsmiths also made conditions worse by collecting the heavy milled coins and exporting them to foreign bullion merchants. So bad was the state of the coinage when William of Orange came to England that traders found it impossible to regulate prices or establish standards of value, and business was almost at a standstill. Those who had wares to sell, preferred to exchange them by barter rather than for worthless money. Guineas sold for thirty shillings, and many of the silver and copper coins were worth no more than 50 per cent. of their nominal value. In July, 1695, 572 bags of silver coin of £100 each were brought into the Exchequer. These were, in the aggregate, found to be slightly more than half their proper weight. In his comedy "The Fool of Fashion," Colley Cibber, the Poet Laureate, puts into the mouth of one of his characters the cynical remark : "Virtue is as much debased as our money, and faith, *Dei gratia*, is as hard to be found in a girl of sixteen as round the brim of an old shilling."

From the point of view of the King and his Government, the most deplorable effect of the debased currency was its influence on foreign Exchanges, which in the case of Holland was 25 per cent. against us, although the balance of trade

was favourable to England. As Parliament was at that period voting immense subsidies for the war in Flanders, and straining every sinew to save the country from the domination of Louis, this loss on exchange represented a serious drain on England's resources. Commerce could never be healthy while its life-blood—the currency—was poisoned by corruption and dishonesty.

Somers and Montague resolved to alter all this at once. In the session of 1695 an Act was passed that provided for the reform of the currency. The Committee that had been appointed to report on this calculated that the re-coinage would cost one million. But when the old money was called in it was found to be very short in weight. This, with the added cost of melting and refining, brought the expense of the operation to the almost prohibitive amount of £2,703,164. This formidable task was spread over three and a half years, and was not completed until 1699. It was notable also because it engaged the attention of four of the greatest men of the age. As Macauley says: "Never had the world seen the highest practical and the highest speculative abilities united in an alliance so close, so harmonious and so honourable as that which bound Somers and Montague to Locke and Newton."

For the Treasury and for the Bank of England, the long interval that elapsed between the beginning of the re-coinage and its completion was one of stress and difficulty. In 1696, through the

King's military establishment and foreign commitments, the annual military expenditure of the country had risen from £1,800,000 in 1689 to nearly £8,000,000. With the expense of re-coinage added to this, the total was more than the Treasury could negotiate. The Government met the situation by transferring some of its burdens to the slender shoulders of the Bank of England; and adopted other measures that brought this institution to the brink of ruin.

The Bank accepted the debased coins tendered, at their face value and passed them on to the Exchequer, but there were no new ones to take their place; and customers were turned empty away.

The year 1696 was a memorable one in the Bank's history. From January onwards its enemies had been active, and had succeeded in bringing down the value of the stock from £108 to £83. Some of the shrewdest of them the goldsmiths, now decided that the time had come for making a strong frontal attack. Armed with a considerable amount of the Bank's paper currency, these gentlemen organised a run on the Bank on May 6. There was naturally not enough coin in hand to meet their demands. Sir John Houblon tried to come to an arrangement with these creditors by offering to pay one-tenth of the amounts owing, in cash, and promising to settle in full as soon as new money came from the Mint. "On Wednesday, May 13," says Thorold Rogers, "the Directors

held a general court of the proprietors, who agreed to put off their dividend and to offer to such persons as distrusted the notes of the Bank the tallies which they themselves held from the Government as security for their loans. Meanwhile the Lords of the Treasury pledged themselves to pay £60,000 a week in the new money, into the Bank, till their whole stock was re-coined."

This promise the Treasury did not redeem. The new coin was now coming in slowly but steadily, but the Treasury found other uses for it; and the Bank, which had paid in its old coin and received nothing in exchange, was obliged to limit its cash payments to 3 per cent. of the amounts owing.

To meet the scarcity of currency, Montague decided to issue Exchequer Bills, or as they were at first called "indented bills of credit." The first batches of these were issued on July 23, 1696, and were for various amounts, mostly £5 and £10, and bearing interest. These Exchequer Bills became very popular and passed freely from hand to hand. They were payable to bearer and, as they were less liable to depreciation than Bank Notes, were much preferred by merchants and other traders.

Hitherto the Bank had been the target of minor assaults. Paper darts in the form of pamphlets had been shot at it from all sides. The goldsmiths once or twice had raided its till. Politicians and parsons had heartily denounced the Puritan usurers who conducted its operations. As a Whig

institution it was hated and feared by territorial magnates and country squires, who saw in it the symbol of a new power that would shake or even destroy their influence.

Now the enemies of the Bank were organised and eager for a mass attack. The assault, when it came, was formidable and brought the new institution to the brink of disaster.

To effect their purpose the Tories took up a scheme for a Land Bank, which had been promoted and for some years zealously advocated by a Dr. Chamberlain, an accoucheur. This doctor was sanguine enough to believe that he could induce the public to subscribe 2½ millions for a public loan, on the security of real estate. He maintained that everyone who owned land should be given paper money of equal value to their property. Although the fee simple of land could not be sold for more than twenty years' purchase, he argued that where a landowner pledged his property to the proposed Land Bank, the Bank could on that security issue notes up to one hundred times its annual value.

On this project, Macaulay in his *History of England* turned his heaviest artillery. "The speculations of Chamberlain," he says, "on the subject of the currency, may possibly find admirers even in our own time. But to his other errors he added an error which began and ended with him. He was fool enough to take it for granted, in all his reasonings, that the value of an estate varied directly as the duration. He maintained that, if

the annual income derived from a manor for twenty years is worth twenty thousand pounds, then a grant for a hundred years must be worth a hundred thousand pounds. If, therefore, the lord of such a manor would pledge it for a hundred years to the Land Bank, the Land Bank might on that security instantly issue notes for a hundred thousand pounds."

Although this reasoning was demonstrably false, the country squires in the House of Commons saw no flaw in it. Were not fertile acres as good a security on which to issue paper currency as gold and silver? For landowners there was only one answer to this question. Here was not only the prospect of ready money—now so hard to come by—but there was also the opportunity of dishing the Whig financiers and destroying that monstrous Bank which seemed likely to absorb all the money in the Kingdom.

They hastened to adopt Chamberlain's project, and it was introduced to the House of Commons by John Briscoe. When in February, 1696, the House met in Committee to consider the best means of raising a loan of two millions, various suggestions were debated. It was proposed to ask the Bank of England's assistance for this purpose, but the motion was rejected. Another motion, that the money should be borrowed on Exchequer Bills, was also lost. Finally, it was decided that a Land Bank should be established, which should raise its capital by subscription.

This proposal was embodied in a Ways and Means Bill, and according to one of its provisions, no one connected with the Bank of England was allowed to take any part in the management of this Land Bank. The sum to be raised was £2,564,000. Harley, afterwards Lord Oxford, Foley, the Speaker of the House of Commons, and Dr. Chamberlain undertook the task of raising the subscriptions; and Commissioners were appointed to receive the money. It was also decided to issue letters-patent to the new Company, which was to be known as the Governor and Company of the National Land Bank; but only on condition that half the loan was subscribed before August 1, and the balance before the end of the year.

The stage was now set for the last Act in the drama that was to end in the ruin of the Bank of England and the rout of the Whig faction that supported it. The landed classes and the Church were to regain their ancient supremacy as the ruling classes in the country, and the merchants and money-changers were to be abased. The new subscription-list was—for that period—extensively advertised. The nobility and gentry received full particulars of the Land Bank, and the advantages that it offered them were set out with picturesque detail. The Court exerted its influence to make the scheme a success, and the King contributed £5,000. But the country squires, who had so enthusiastically supported the Land Bank by their votes in Parliament, left to others the task of

supporting it financially. They were prepared to accept its money, but would contribute nothing. Furthermore, they had so clearly shown their dislike of the City and its merchants that no one in London would do anything to help a Bank the object of which was to finance the landed classes.

The result of the appeal was therefore disappointing, and the Commissioners at the Mercers' Hall waited in vain for subscribers. Three weeks after the lists were opened, the promoters announced that they would be glad to receive " old clipped money that cannot be passed away without loss." But even with this bait, the fish refused to rise. The amount subscribed by the public was £2,100. This, with the addition of the King's contribution, was all the money paid in.

This fiasco was a source of embarrassment to the King and a serious blow to English credit. William urgently needed money for his campaign in Flanders, and Briscoe and Chamberlain assured the Government representatives who saw them, that they had liberal promises of support and would soon be able to supply the Treasury with the money required. But soon it was evident that these promises were illusory.

Chamberlain, who in addition to this public flotation also controlled an " Office of Land Credit " in New Buildings, Lincoln's Inn, now decided that his career of usefulness in England was at an end, and in July or August, 1696, he disappeared. He is reported to have taken with

him large sums of money subscribed to his "Office of Land Credit." According to "A Hue and Cry after a Man Mid-Wife," Chamberlain fled to Holland, for we read :

> By common Report unto Holland he's fled,
> If so, the Land Bank is brought finely to bed ;
> For if to the old place of Refuge he's run,
> Adzooks, you're all cozened as sure as a Gun.
> And you that are choused for your money may mourn,
> For Holland, like Hell, never makes a return.

The establishment of a rival Bank, which seemed likely to endanger the existence of the Bank of England, caused the Governor and Directors of the latter much tribulation. The Bank then had only been incorporated for two years, and like all new ventures, was subject to suspicion and mistrust. In the wild fluctuations of the favourite gambling counters of that period, there is evidence that speculators were more mercurial and exciteable than in later times. Thus we notice that the shares of the Hudson Bay Company fell in two years from £250 to £80, while those of the English East India Company, the new rival of the East India Company, rose from £46 in 1699 to £219 in 1703.

The shares of the Bank of England did not fluctuate so wildly ; but the threatened rivalry, coupled with the currency deadlock, caused the Bank's credit to sink, and induced nervous customers to withdraw their deposits.

The cynical indifference of William and his

Government to the interests of the Bank they founded is only less remarkable than the patience and forbearance of the Directors and proprietors at the treatment they received. Their loyalty and patriotism never swerved even under the most cruel provocation and ill-treatment. After borrowing every penny of the Bank's capital, and leaving the Bank to sustain its credit on paper currency, the Government next borrowed its notes on the security of depreciated tallies. Then, as already mentioned, it dealt a further blow to the Bank's credit by calling in the currency it had collected, and neglected to pay in the new coins in exchange. As a final stroke, the Treasury sanctioned the foundation of the rival Land Bank, which many believed would bring the Bank to ruin.

It had been agreed by the House of Commons that the Bank should take no part in raising the loan of two millions, and the Government confidently relied on getting this money from the Land Bank. But when the Government found that nothing was to be got from that quarter, their only remaining source of supply was the Bank of England. Montague pointed out to Sir John Houblon that the Government's need was desperate, and that unless a substantial sum of money was raised the King's campaign would end in disastrous failure. Sir John, in reply, explained that the Bank had no funds in hand to meet the King's needs, and that no more could be raised without consulting the proprietors. Then Sir

John Houblon called a meeting of the proprietors of the Bank and carefully explained the situation. Some of the shareholders asked him if an issue of "running cash notes" would not meet the difficulty, but Sir John shook his head and told his hearers that their contribution must be in current coin. It was then proposed that the Bank should borrow 20 per cent. of their capital from its proprietors. When this motion was put to the meeting, it was agreed to without a dissentient voice. The shareholders of the Bank promptly answered the call and £240,000 was paid into the Treasury. In addition to this, the Bank also paid in a further sum of £100,000, which had been borrowed by the Directors from the Bank of Amsterdam.

Then two months later, the Duke of Portland, one of the King's most intimate friends, hurried to the Bank and urgently requested the Governor to lend the Government another £200,000. This was advanced on August 15, after a further call had been made by the proprietors.

Never weary of asking, the Government next demanded a loan of 2½ millions. This was too much even for that body of loyal and patriotic citizens who were the mainstay of the Bank. They became mutinous and pointed out in speech and print that the Government had failed to keep faith with them, and that the credit of any Government depends on the manner in which it keeps its promises. They also complained that they were being treated unjustly, because the

shareholders "have a right to the profits due to their foresight and their efforts, not to mention the reward due to them for all the sacrifices, including even that of their dividends, made to help the Government in its time of difficulty."

The Bank was prepared to make further advances, but now there must be guarantees for its future prosperity. If it was to be of value to the State as well as its shareholders, it should be freed from competition. Only through this protection could its stock and note issues be raised to their nominal values. After prolonged negotiations, the Bank was authorised by the Government to add £1,001,171 10s. *od.* to its original stock; four-fifths of the subscriptions to be accepted in tallies and orders, and one-fifth in bank-notes at their full value (the tallies had for a long time been at 40, 50 and 60 per cent. discount on the Exchange).

In return for these concessions, the Bank's Charter was extended until August, 1710, and beyond that term until the Government's debt was paid. It was also provided that all the property of the Bank was to be exempt from taxation; and it was made a felony, without benefit of clergy, to forge, or tamper with Bank-notes.

Another section, framed for the purpose of giving the Bank a monopoly of banking, provided: "That during the continuance of the corporation of the Governor and Company of the Bank of England, no other bank or any corporation, society, fellowship, company, or constitution in the nature

of a bank shall be erected or established, permitted, suffered, countenanced, or allowed by Act of Parliament, within this Kingdom."

By virtue of this clause the Bank of England secured a partial monopoly, which was afterwards made effectual by the Act of 1707.

The loan was successfully issued. Tallies to the amount of £800,000 were withdrawn from circulation, and £200,000 of depreciated Bank-notes were cancelled. Through these measures public credit was restored. In the following year (1698), the stock of the Bank rose to par; and a second dividend of 7 per cent. was paid in September. Six months later Bank stock rose to £117½, and in 1700 it shot up to £148.

But these days of peace and prosperity did not last. In 1702, Louis XIV, who delighted in putting lighted torches in powder magazines, formally acknowledged the son of James II as King of England. This open championship of the Jacobite cause was a challenge that Englishmen could not ignore. It united the King and his estranged people. Diplomatic relations with France were broken off, and England joined the European Coalition that was waging the War of Succession with Louis XIV.

The two years that preceded the War of Succession brought England peace and prosperity. Harvests were good, foreign trade expanded, and home industries flourished. Money was abundant, and interest rates fell to low levels. In these condi-

tions, Charles Duncombe, the notorious goldsmith-banker, found a favourable opportunity for launching a scheme he had long been maturing. Of all the Bank of England's enemies, he was the most implacable and unscrupulous.

Duncombe was a typical product of his time. In an age of rascality he stood out as an exponent of all that was base and dishonourable. He had been convicted of forgery, and amassed a fortune by practising many forms of roguery. By lavish bribery he succeeded ultimately in securing his election as Lord Mayor of London.

He had several times engineered falls in the price of Bank stock by clever manipulation, but in 1700 he brought forward a plan for the formation of a company which would lend four millions to the Government at 5 per cent. This money, Duncombe explained, when applied to paying off the Bank of England and the New East India Company, would effect a saving of 2 per cent. But the scheme was never tested. At this juncture the civilised world was electrified by the news of the death of Charles II of Spain, an event that gave free rein to the ambitions of Louis XIV, and plunged Europe once more into war. Bank stock fell £12. Duncombe and his plans were forgotten. The High Allies took up the challenge; and two years later, in consequence of the French King's recognition of the Pretender's claims, England joined in the war.

William died at the beginning of the struggle,

and the leadership of the Allies passed into the hands of the more capable Marlborough. Party asperities, which had been largely due to the personal unpopularity of King William, were softened when Anne came to the Throne, and even the extreme Jacobites, for a time, put national interests before the claims of the Stuarts.

The Bank of England benefited by this change of sentiment. It was still regarded with dread and suspicion, as the Treasure-house of the Whigs. Its enemies were wealthy and powerful, and prepared to go to any lengths to gain their ends. Members of Parliament who were in their pay were constantly on the watch to see that the Bank gained no undue advantage in its many contracts with the Treasury. But despite these drawbacks, it continued to grow in influence. Its support of the Tory Queen and Ministry in their rigorous prosecution of the war made it popular with all classes; while Lord Godolphin, now the Lord Treasurer, must have found intercourse with the plain City men who directed its fortunes a tonic relief from the honeyed words and fathomless intrigues of the self-seeking politicians of St. Stephens and Whitehall.

Land was then, and was to remain for a century or more, the most valuable form of property. Though it gave but a small return in interest, it was the safest and most concrete of all kinds of wealth, and its possession conferred prestige as well as social and political influence. Territorial mag-

nates and country squires looked down in disdain on the goldsmiths and merchants who were becoming rich through the expansion of home and foreign trade, and dubbed them usurers and money-grubbers. But they were ready and even eager to share in the profits of commerce, when opportunity offered, and, like others who had money to spare, invested their savings in trading ventures. The vast wealth that had been accumulated by the East India Company and other Colonial trading companies excited the cupidity of all classes. Men saw visions of riches that could be won without years of patient toil and self-denial. Many had become wealthy by sudden turns of Fortune's wheel. Why should not others have their share?

To statesmen and politicians, money was indispensable. It banished all obstructions to success. Bribery and trickery were so common that the man of honour found himself hopelessly handicapped in the race.

And the Bank of England stood for wealth. Its Governor and Directors were men of the highest standing in the City and their word carried weight in Councils of State and the Exchanges of commerce. On one occasion, at least, the Governor of the Bank was consulted by Queen Anne herself. As a large proportion of the nation's wealth had for some years been passing through the coffers of the Bank, the experience thus gained enabled its Directors to give responsible advice to Ministers

who contemplated plans involving heavy expenditure. They were also willing and able to help the chiefs of great trading concerns to unravel knotty financial problems.

In the first years of the War of Succession there were times of alarm and panic. Bad news from the seat of war caused nervous speculators to hurry to the Exchange and sell their stocks ; and as the Funds fell to dangerous levels there followed a clamorous demand for specie. At such times the Directors found it necessary to issue sealed bills bearing interest.

Then came, by way of contrast, the great days of July, 1704, when British warships attacked and captured Gibraltar ; and when three weeks later there followed the glorious news of Blenheim, English prestige abroad was exalted and public confidence was restored at home.

But in the Spring of 1707 there came ominous news from France. It had long been known by the English Government that great preparations were being made in France by the Pretender for an invasion of this country. Now tidings spread through London that the invasion was hourly expected, and that the Pope and Louis XIV were assisting the enterprise. The news caused wild excitement. Trade was at a standstill. Creditors refused paper and demanded gold, while the price of Funds dropped 14 points. Jacobite agents spread stories that raised the public terror to the pitch of frenzy, and along with these came news

that Sir Francis Child had refused to accept the Bank's notes of Issue. For once Rumour spoke less than the truth; as Sir Francis had done more than this. He and the other goldsmiths had for once joined forces with the Jacobites and organised a run on the Bank. These plotters confidently believed that their action would paralyse English commerce, and give the Pretender an easy passage to the Throne of his fathers. To this end they had collected £100,000, in Bank notes, all of which they presented for payment in cash.

The Governor of the Bank quickly understood the situation. He paid a sum on account to these creditors, and promised they should have the balance on a given date. Other depositors, hearing of the "run" on the Bank, also pressed for the payment of their claims. The situation began to look critical. For days anxious crowds besieged the Bank and demanded the return of their money.

Then the tide began to turn. The proprietors, ever ready to answer an emergency call, promptly responded to the Governor's demand for a 20 per cent. contribution on their shares. The Directors also discovered, to their surprise and pleasure, that they had friends in unexpected and influential quarters. The Duke of Marlborough, who in former times had shown his sympathy for the Jacobites, now offered the Bank a large sum of money in order to defeat their plot. The Dukes of Somerset and Newcastle followed his example.

Wealthy City merchants also rallied to the side of the Bank and freely offered their aid. Others, instead of withdrawing their deposits, augmented their balances with all the money they could spare. One man, whose sole wealth was £500, brought this to the Bank. When she heard of this, Queen Anne made him a present of £100, together with a bill on the Treasury for the repayment of the £500. Godolphin, the Lord Treasurer, also informed the Directors of the Bank "that the Queen would allow for six months, an interest of 6 per cent. on their sealed bills."

Thanks to this help from outside friends and its own proprietors, the Bank was able to weather the storm. But war-clouds still darkened the prospect, and in the following year the Treasury was again short of money and asked the Bank to arrange a loan. In return for this service the Chancellor of the Exchequer offered to renew the Bank's Charter for a further term of 21 years.

This proposal was no sooner made than the enemies of the Bank again took the field. The Jacobite squires and parsons denounced Godolphin as a traitor, and passionately denounced his offer as "influence." A sheaf of new pamphlets appeared, all of which advocated the abolition of the Bank. The tenor of these is sufficiently suggested by the title of one of them, which runs: "Arguments against prolonging the Bank, with proposals for advancing the Revenue of the excise and making more useful to the Nation than ever the

Bank can be, without any danger to the Publick. In a letter to a Member of Parliament (1708)."

But suggestions such as these had little chance of acceptance at a time of crisis, and the statesmen of Queen Anne knew, as well as Abraham Lincoln in a later age, how unwise it is to swap horses while crossing a stream. Instead of abolishing the Bank they were concerned rather to make it more responsive to their needs, which were urgent and imperative.

The Bank concluded an excellent bargain with the Government. In return for advancing a loan of £400,000 at 6 per cent. and reducing the interest on the original capital of £1,200,000 from 8 to 6 per cent. it was allowed to double the existing capital of £2,201,171; its Charter was extended until August 1, 1732; and it was also decreed "that during the continuance of the said Corporation of the Governor and Company of the Bank of England, it shall not be lawful for any body politic or corporate whatsoever, erected or to be erected . . . or for any other persons whatsoever, united or to be united in covenants or partnerships, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills payable at demand, or at any less time than six months from the borrowing thereof."

This monopoly clause, more stringent than that of the Bank Act of 1697, took effect in 1709, and remained in force for more than a hundred years.

The public confidence in the standing of the

Bank, and its future prospects, is shown by the manner in which its new capital was raised. The issue was of the nominal value of £2,201,171 and the £100 were offered at £115. Yet even at this premium there was a rush to buy them; and the subscription-list, which was opened on February 22, 1709, was completed between nine o'clock and midday. "Near one million more would have been on the same day subscribed," says a contemporary writer, "had there been room for it, so great was the crowd of people coming with their money to the Bank."

When we remember that the population of England was then under six millions, or about one million less than the London of to-day; that its people were relatively poor; that the country's principal industries were as yet undeveloped; and that the age of steam which was to make England the workshop of the world was still hidden in the mists of futurity, we cannot but commend these forefathers of our race for their energy, enterprise and foresight.

In this year Dr. Sacheverell preached at St. Paul's a sermon in which he extolled the virtues of non-resistance, and violently attacked the Government. The Lord Mayor, who was present, gurgled with delight as he listened to this Tory manifesto. He invited the Doctor to dinner and urged him to print the sermon. Sacheverell needed no urging. He was only too delighted to find himself in the fierce glare of publicity.

THE BANK, THREADNEEDLE STREET

The war, with its vast accumulation of debt and heavy burden of taxation, had become very unpopular. The Whig ministers who conducted it were even more disliked. Party feeling ran high. Ministers, despite wiser counsels, decided to prosecute Sacheverell. From that moment he was the chosen champion of the Tories and Jacobites and the idol of the rabble. In 1710 he was tried, and received a sentence that was virtually an acquittal. It was a Tory triumph and the London mob signalised it by wrecking the chapels and meeting-houses of the Dissenters with a fervour that demonstrated the allegiance of these people to orthodox doctrine.

But the Governor of the Bank was alarmed by this outbreak of religious enthusiasm and sent a letter to the Secretary of State, asking for a guard to protect the Bank premises. The Queen sent her own Foot and Horse-guards. This action had a salutary effect. The sight of the troops overawed the "pot-valiants," and the threatened attack was abandoned.

A year before Queen Anne's death, in 1714, the Bank of England made another advance of money to the Government and in return secured an extension of its Charter until 1743. As the Queen lay dying the problem of the Succession again became acute, and the Whig and Tory factions prepared for civil war. The Whigs invited Marlborough to come over from Flanders and lead their forces; while Bolingbroke appointed the

Duke of Ormond to the Wardenship of the Cinque Ports—within the area of which either claimant to the Crown must land. Scotland, now in Union with England, was the headquarters of the Jacobite cause, and here the direction of affairs was entrusted to the Earl of Mar, a devoted adherent of the Stuarts.

But the Tory ministers' plans were still incomplete when on July 30, Anne had an apoplectic stroke. The Whig leaders took time by the forelock and acted with vigour and decision, while their opponents were still debating the best course to take at this crisis. The Dukes of Argyll and Somerset entered the Privy Council without invitation ; found there the Tory Duke of Shrewsbury, who supported them, and with him interviewed the dying Queen. Anne assented to the appointment of Shrewsbury as Lord Treasurer. The Elector George was summoned from Hanover, and proclaimed King without opposition.

For a few days the uncertainty and tension produced a panic in commercial circles and there was a short run on the Bank, but the disorder quickly subsided.

CHAPTER III

THE SOUTH SEA BUBBLE

THE desperate attempt of the Pretender to enforce his claim to the Throne of England in 1715, though it caused vast commotion in Scotland and the North of England, did little to impede the course of English trade and commerce. The country under George I settled down to an era of peace. It was surfeited with rebellions and wars, and desired nothing more than to be let alone and to be free to pursue its ordinary avocations. Constitutional historians point to this period with scorn, as one of political stagnation; but it was also one of vast material progress. Export merchants were developing their oversea connections; new industries were springing into existence; and wealth was rapidly being accumulated.

Already in 1715 the national prosperity was so evident that the Directors of the Bank thought it an appropriate time to introduce a Conversion Scheme for the reduction of the Interest on the National Debt from 6 to 5 per cent. The Government accepted the proposal; and in conjunction with the Bank, put the plan before the Fundholders and succeeded in inducing them to accept the lower rate of interest.

The year 1718 witnessed the introduction of another innovation, when subscriptions to Government loans were lodged with the Bank, instead of the Treasury, as in former times. This practice, needless to say, still continues.

The seventeenth and eighteenth centuries were the golden days of the monopoly Trading Companies. East and West, these merchant adventurers reaped rich harvests. Through the privileges granted them by the Crown and Parliament, these Companies not only amassed great wealth but were able to pay out immense sums in the form of bribes and subsidies. It is not, therefore, surprising that when it was announced in 1711 that Lord Oxford had formed a South Sea Company, which was to be granted a monopoly of trading in the Pacific Ocean, the investing public at once began to take an interest in the scheme.

This project was framed, like many others, for the purpose of replenishing the funds of the Treasury. The Whigs had just been driven from office, and the War of Succession which had cost fifty million pounds, was drawing to a close. There were heavy engagements to meet, and no cash in hand. Public credit was so low that Government Bills were at a discount of 40 per cent.

According to Lord Oxford's plan, the South Sea Company was to provide the money due to the Army and Navy, as well as other unfunded debts. In return for this it was to receive 6 per cent. on

the money advanced, and the monopoly already mentioned.

From the time of Queen Elizabeth those magic lands in the South Seas had cast a spell on the English people. To the popular imagination they were storehouses of unlimited riches—Tom Tiddler's grounds, where gold and silver and precious stones could be found by any who would brave the perils of the sea voyage to their enchanted shores.

Here then was a direct appeal to the spirit of romantic adventure, and that promised as much wealth as the heart of man could desire. The shares were eagerly taken up, and upwards of £4,000,000 was subscribed within a fortnight of the opening of the subscription list. A Royal Charter was granted to the Company on September 8, 1711. Harley, now Earl of Oxford, became the first Governor, and a number of gentlemen of wealth and influence joined the Board as Directors. Charles Lamb speaks of the new offices of this mammoth Company as "a handsome brick-and-stone edifice, to the left where Threadneedle abuts upon Bishopsgate."

The first meeting of shareholders of this new Company was held on September 14—six days after the grant of the Charter.

Whether anything was said about the monopoly the Company was to enjoy, at this meeting, we do not know. But its Directors, or at least the Governor, Lord Oxford, can have had no illusions

on the point. As a statesman of long experience, he must have known that Spain's existence as a commercial power depended solely on her South American trade, and that any monopoly the South Sea Company could acquire would only be at the expense of that country's trading rights.

If Oxford was ignorant of this he was speedily enlightened, for his valued correspondent, Daniel Defoe, not only wrote to him on the subject before the Bill became law, but afterwards published a pamphlet "An Essay on the South Sea Trade," in which he clearly outlined the position and indicated the difficulties the South Sea Company would have to encounter. Here are his words: "The contrivers of this undertaking know too well the temper, constitution, and state of affairs of the Spaniards in America, to have promised to themselves that by any treaty, capitulation, or stipulation, either in New Spain or Old, they will ever be brought to lay open the trade of their Indies to the English, or indeed to any nation in the world." He went on to explain that "it would be so fatal to the very life and being of the Spanish dominions in Europe," and would mean "throwing away the only valuable stake they have left in the world." In view of this he could not believe "that they will ever, on any consideration, or for any equivalent, part with so valuable, indeed, so inestimable a jewel, as the exclusive power of trade to their own plantations in America."

Defoe's warning was justified; and his prediction as to the attitude of the Spanish Government proved correct. Philip V, the King of Spain, refused to abate an iota of his privileges. After protracted negotiations all that was conceded to the British Government and the Company was "an *assiento* for supplying the Spanish Colonies with four thousand eight hundred negroes yearly for thirty years; leave to the Company to trade and settle factories at Panama, Vera Cruz, Havana" and other places, "and to send yearly, one ship of less than five hundred tons." This was permitted only on the condition that the King of Spain should receive 30 per cent. of the profits.

The Act of Parliament authorising the formation of the Company, also safeguarded the rights of the Bank of England. One of the principal clauses contains the declaration that "For better securing the privileges of the Bank of England, the new Company shall not borrow money on their bills or notes on demand, nor at any less time than six months: neither shall they discount bills of exchange, nor any other bills or notes whatsoever; nor shall they keep any books or cash for any persons or corporations, excepting their own alone."

In 1715 the South Sea Company, by virtue of an Act of Parliament passed in that year, raised its capital to £10,000,000, and the Prince of Wales became Governor. So far this great concern had done very little profitable business, and its

Directors, who, according to Oxford, were much more concerned with securing their own private interests than the good of the Company, took anything but a rosy view of its prospects. The shareholders and the general public, however, regarded this South Sea venture as one with immense possibilities, and were always ready and even anxious to provide it with additional capital.

This public confidence in the stock of the Company induced the Directors to put forward more ambitious schemes, and when in 1717, Ministers of the Crown invited proposals from the Bank of England and the South Sea Company, for reducing the debts of the nation, the South Sea Directors had a plan ready for the consideration of Parliament. They expressed their willingness to advance a further £2,000,000, to be applied to redeeming the principal and interest on four Lottery Loans, the first of which had been issued in 1711. In return for this they asked 5 per cent. interest, and were prepared to accept the same rate on the £10,000,000 already lent.

But this and other offers were not considered sufficiently advantageous by the House of Commons, and for a time the negotiations dropped. In 1718 the King took the place of the Prince of Wales as Governor of the Company. In the same year the Company, which had suffered much through the seizure of their property by Spanish officials, made strong representations to the King on the subject, and pointed out that through this

and other causes they had lost £200,000. The Spanish Government promised to redress these grievances, but the Company was never fully compensated for their losses.

The Directors, who were convinced that for some time the overseas trade would not be profitable, resolved to employ their capital more advantageously at home. They began with a relatively small deal in 1719 by issuing £2,500,000 for taking up Government annuities which had 23 years to run and paying for them at 12¾ years' purchase. This was an extremely profitable deal, for not only did they secure an excellent margin on the annuities, but they also gained a large profit on the new stock, which was issued at £114 per cent.

Now they were ready for more sensational experiments. Their first offer, put forward by Sir John Blunt, was as splendidly audacious as the plans of a modern company promoter. His suggestion was that the stock of the Bank of England and the East India Company should be merged with that of the South Sea Company. But the Government thought this merger too risky an experiment and declined to move in the matter.

Again Sir John approached Ministers, but this time he carefully prepared the ground. Aislabie, the Chancellor of the Exchequer, an unscrupulous and avaricious man, received substantial assurances that it would be greatly to his advantage if the new South Sea scheme was accepted by Parlia-

ment. The help of other influential Ministers was secured by the same means.

By the new plan, the South Sea Company was to take over the National Debt and Fundholders were to become shareholders in the South Sea Company.

Early in 1720, Aislabie put the proposals of the Company before the House of Commons. These were now in more definite form and were as follows: The National Debt, then amounting to more than £30,000,000, was to be taken over by the Company. For this somewhat doubtful privilege they were to pay £3,500,000. In other words, the holders of irredeemable annuities, guaranteed by the Government, were to be induced to accept shares in the South Sea Company instead of Government stock. In return, the South Sea Company was to receive 5 per cent. until 1727, and 4 per cent. in succeeding years.

Aislabie and his associates naturally favoured this plan. The House of Commons was too staggered by the audacity of the plan to be critical, and listened in astonishment to the speeches of Aislabie and Craggs, in its favour. It is probable that the motion in Committee would have been carried without a dissentient voice, if Arthur Brodrick, the brother of Lord Middleton, had not intervened, and suggested that the House should make the best possible bargain, and that to this end, other companies should be invited to make offers.

The debate then became general, and after Sir

Robert Walpole had criticised the South Sea scheme in detail, Brodrick's suggestion was adopted by a large majority.

"Whether the Bank of England will make a proposal," wrote Brodrick to his brother, "I know not; but I am very well satisfied many a fair pound will be saved to the public even by the very proposal the South Sea Company will make."

Through the zeal of its friends in the House of Commons, the Bank of England was induced to take part in an undignified competition with the South Sea Company. The actions of the Governor and Directors of the Bank demonstrate the jealousy and alarm they felt at the growing influence of this new rival. At the next sitting of the House, which took place after an interval of five days, it was announced to Members that the Bank of England was prepared to take over the debts of the State, and offered to pay £5,000,000.

The nation now had the edifying experience of watching the frantic competition of two great corporations trying to outbid each other in a struggle to secure the right of shouldering the State's responsibilities.

The South Sea Company next called a meeting of its shareholders, and after consulting them, raised their offer to £7,500,000, in case all the debts should be subscribed, and in that proportion for any part of them.

The Bank of England countered this offer by

bidding £1,700 of its stock for every irredeemable long annuity.

These offers show that the speculation madness which already prevailed among the general public had also affected the responsible heads of great corporations.

Fortunately for the Bank, its offer was not accepted. Possibly some access of caution or twinge of conscience caused its Directors to withdraw hastily from these quicksands of dubious finance; but whatever the reason, they made no further offers; and beyond the grim satisfaction of knowing that they had made the South Sea Company pay very dearly for their whistle, they gained nothing from these "mad-hatter" proposals.

The South Sea Company's proposals were finally agreed to by Parliament, and the Bill embodying them received the Royal Assent on April 7, 1720.

Before the passing of this measure, public confidence in the South Sea Company had grown to an extraordinary degree. Now it became, in their eyes, a stronghold of financial power, and the greatest and most imposing trading corporation in the world. Its shares were a passport to wealth and prosperity, and there was an eager scramble for them by the investing public. Property owners mortgaged lands and houses, and ladies of fashion sold their jewels to buy stock. Tradesmen and others in straitened circumstances, borrowed money at exorbitant rates of interest, so that they

might have a share in the mighty stream of gold that the South Sea Company was about to earn. "The town is quite mad about the South Seas," wrote the Countess of Kinnoull to her father, Lord Oxford, "some losers, some great gainers, one can hear nothing else talked of. Exchange Alley is the place of greatest resort now." The stock-jobbers, the majority of whom were irresponsible rascals, were besieged by importunate clients, whose moral standards were equally low.

The price of South Sea shares, which in 1719 was 126, rose in the following year to 400. This enormous premium induced many of the more cautious gamblers to sell out and secure their profits. In consequence of this the price sagged to 330, at which figure it remained for a few weeks. More profit-taking followed and the price receded to 280.

Then began that market manipulation, for which later the Directors were to pay a heavy price, in shame and humiliation. Through their agents in Change Alley and the coffee-houses plausible stories were spread, that sent the shares soaring again.

It was reported, always on "the highest authority," that a Treaty between Spain and Great Britain was on the point of being settled, under the terms of which the South Sea Company would be free to trade with most of the South American countries; and that England had agreed to cede Gibraltar and Port Mahon in exchange for some parts on the coast of Peru. The Directors

also confidently predicted that the Company would become the richest the world had ever seen, and that its shares would yield a return in the near future of several hundred per cent.

There was not the slightest foundation in fact for these glowing reports, but they served the purpose of the lying promoters who spread them. The Company's stock rose again to 325.

This rise in the stock reassured the South Sea Directors. With the knowledge that they had the public behind them, they plunged more recklessly than ever. On April 12 they opened a Subscription for £2,000,000, at the price of £300 for each £100 of stock. The public swallowed the bait so greedily that a further £250,000 worth of stock was issued; so that in this single transaction they raised £6,750,000.

A week later a dividend of 10 per cent. on both the old stock and the new subscription was declared. It was simultaneously announced that the Company would grant money loans on stock for four months at 5 per cent.

This announcement sent the stock on another upward flight to 400. The Directors, whose greed for subscriptions seemed to be insatiable, saw in this a fresh opportunity of fleecing the public, so once more opened their book and announced a further issue for £1,500,000 at £400 for each £100 of stock.

In France the gambling fever had broken out some months before it was manifested in England.

The development of John Law's Mississippi scheme into a plan for paying off the French National Debt had sent the French investing public into a delirium of excitement. Law, the son of an Edinburgh goldsmith, was a man of remarkable ability. Through his skill in finance he had accumulated a large fortune and won the confidence of the Duke of Orleans, then Regent of France. In 1716, with the approval of the French Government, he established the Banque Générale, afterwards known as the Banque Royale. This institution became the State Bank. Its issues were guaranteed by the Crown. His position as Director-General of this flourishing Bank gave Law almost the powers of a Dictator, and enabled him to carry out plans of amazing magnitude. Not content with colonising the vast territories of the Mississippi, the Ohio and the Missouri, he bought up the French East India, China, and African Companies, and incorporated them with the Mississippi undertaking.

For a time this daring gambler enjoyed the blind confidence of the French people, who scrambled and outbid each other for the stocks he offered them. The shares of his mammoth Company jumped to a high premium, which mounted hourly and daily. The declarations of a dividend of 40 per cent. on January 1, 1720, sent Mississippi shares soaring to incredible heights. Capital stock of 500 livres, which a few days before had been selling at 10,000 livres, could not now be bought for less than 18,000 livres.

Law had reached the zenith of his career. Four days after the declaration of the dividend he was appointed Comptroller-General of Finance.

Five months later, when the South Sea boom was nearing its height, ominous news reached London. Law's house-of-cards had collapsed, and brought poverty and misery into hundreds of thousands of French homes.

This news was as the handwriting on the wall to a few shrewd speculators, and they hastened to snatch their profits and close their accounts in South Sea stock. But by the vast majority the warning was unheeded. As a contemporary writer said: "Nothing is so like Bedlam as the present humour which has seized all parties, Whigs, Tories, Jacobites, Papists, and all sects. No one is satisfied with even exorbitant gains, but every one thirsts for more, and all this founded upon the machine of paper credit supported by imagination."

At that period speculation in stocks was comparatively a new form of gambling; and many were quite ignorant of the mysteries of Exchange Alley, and equally so of the risks they ran. Their experience was limited to a knowledge of the trend of South Sea stocks, and it never occurred to them that shares might move down, as well as up. But the present was not the time to think of such unpleasant contingencies. The stocks were mounting like rockets and wafting them to heights of prosperity they could never have attained by

humdrum toil. But in June many of them had a shock. On May 28 the stock stood at 550; on the 31st it rose to 600. Three days later it mounted to 890. Here was an opportunity for speculators to turn their amazing paper profits into gold. They did so, with the result that the market price of stock dropped 250 points; but later there was a recovery, the net loss on the day being 120 points.

This slump alarmed the Directors and they sent out brokers to buy up all available shares. This artificial stimulus brought the price up to 820. This naturally did not satisfy the Directors, for it was still 70 points below the peak figure, and they were hoping to get the price up to 1,000.

To help the market they offered to lend £400 on every £100 of their capital stock, at 4 per cent. By this and other devices, confidence was restored.

Though the price of South Sea stock was round about 800, the Directors decided to issue a new Subscription at the price of £1,000 for £100 of stock. This astonishing bluff succeeded, for the public, believing that the Directors must have something good "up their sleeves," to demand such a figure, were so much impressed that when at the end of June the new stock was offered, there was an overwhelming demand. So much so that, instead of selling only £1,000,000 capital stock, the issue was extended to £4,000,000. In July, within a month of the issue, the new stock had risen to a premium of 330.

Besides those who invested and gambled in the shares of the South Sea Company, there were people of smaller means, who had been bitten by the prevailing mania, but were unable to buy stocks the price of which ran into three or four figures. They were just as avaricious as their wealthier neighbours and as ready to make money in the same way, but they wanted counters they could afford to buy. Unluckily for most of them, many rogues and sharpers were ready to gratify their wishes. Promoters of new companies made their appearance on all sides, and the public were invited to subscribe to the strangest and most varied collection of enterprises that had ever been planned outside a lunatic asylum.

None except the most credulous were deceived as to the character of these wild-cat schemes. They were promoted, not for carrying on legitimate business, but as gambling counters; and as such they were regarded by people, who bought the shares at par and hoped to sell them at a handsome profit. The sharpers found the business much more profitable than the gaming-tables of Covent Garden. To gratify their lust for gambling, we are told smocks were deposited to make up the security for cash; wives and daughters were sold; "and as much as 20 per cent. parted with, for a bare week's loan of one hundred pounds, in expectation of a miser's gain."

The cynical rascals who projected these schemes made not the slightest effort to cloak them with

respectability. Among these proposals was one for making salt-water fresh; another was for the manufacture of a wheel for perpetual motion. The promoter of the latter modestly asked the public for a million. Another gentleman, more ambitious, demanded four millions for a company that proposed to improve malt liquors. Other companies were formed for dealing in hogs; for trading in human hair; for importing walnut trees from Virginia; for furnishing funerals in Gt. Britain; and for the importing of jackasses. An ingenious moralist founded a concern for insuring female chastity. One scoundrel, more brazen than the rest, announced a "Company for carrying on an undertaking of great advantage, but nobody to know what it is; every subscriber who deposits £2 per share, to be entitled to £100 per annum."

This man received subscriptions to the amount of £2,000 in five hours. Then he locked the door of his office and departed for pastures new.

Anderson, and other contemporary writers, estimate the total amount subscribed to these bubble companies at more than 300 millions.

The existing state of affairs is pungently described by Pope in his Epistle to Allen, Lord Bathurst:

> At length corruption, like a general flood,
> Did deluge all, and avarice creeping on
> Spread like a low-born mist and hid the sun.
> Statesmen and patriots plied alike the stocks,
> Peeress and butler shared alike the box;
> And judges jobbed, and bishops bit the town,
> And mighty dukes packed cards for half-a-crown—
> Britain was sunk in lucre's sordid charms.

Among the crowd of "bubbles" promoted in 1720, were at least two genuine concerns. These were the Royal Exchange and the London Assurance Companies, of which Lord Onslow and Viscount Chetwynd were Governors. The influential City merchants who controlled these Corporations tried to get Royal Charters for them, but failed to obtain Parliamentary sanction. Then they offered to pay off the Civil List Debt of £600,000, on condition that the sanction of Parliament was obtained for their incorporation and Royal Charters granted.

At the same time the South Sea Company had been watching with jealous eye the efforts of the smaller bubble fry. Wishing to gain a monopoly of all the share-gambling in the country, the Company petitioned Parliament, asking for power to prosecute several shady promoters. The Government was impressed by these representations, which can be easily understood when it is known that leading Ministers, as well as many Members of Parliament, were in the pay of the South Sea Company.

The Act which followed is one of the most remarkable in the history of English commerce.

Letters Patent were granted to the Royal Exchange and London Assurance Companies. The legal rights of Lloyd's Underwriters were also defined, it being pointed out in one clause that the establishment of these concerns should not interfere with the right of private persons to practise insurance on ships and merchandise, as formerly.

There was also the clause inspired by the South Sea Company: "for restraining several extravagant and unwarrantable practices . . . that manifestly tend to the common grievance of our subjects in their trade."

This clause, and the Royal Proclamation which was published on the day the Act was passed (June 11, 1720), sounded the death-knell of the bubble companies; and it also had a boomerang effect, for from this day dates the decline of the South Sea Company. In pricking the smaller bubbles, the eyes of the public were opened to the fact that the South Sea Company itself was but a monstrously inflated balloon, perilously soaring at the mercy of wind and storm.

The issue of the Proclamation had a devastating effect on the prices of the shares of the bogus companies. Many of these, which had been selling only a few weeks before at prices varying from £20 to £75, were jobbed off at rubbish figures. Thousands of ruined investors visited Exchange Alley in the hope of saving something from the wreck. But there they met only other victims of misfortune, as the promoters, at the first hint of trouble, had fled, carrying with them their ill-gotten gains.

Many thousands of small investors had been beggared, and it was whispered that certain great and wealthy lords had lost immense sums in the general wreckage. Confidence had fled. An air of gloom hung over Exchange Alley, and there were

long faces in Jonathan's and Garraway's Coffee-houses. Suspicion that had slept long and soundly was now awake. Significant questions were asked. "What of the South Sea Company which had scuttled the ship of credit? Was it safer than the concerns against which it had acted the part of common informer?"

But as yet the South Sea Company seemed to be on firm ground and these questions were laughed at. On August 24 the Directors opened their books for a new Subscription at the price of £1,000 for each £100 of stock. The issue was taken up in three hours, and on the same day the shares rose to a premium of 40 per cent. Here was a triumphant answer to the pessimists! Yes, the South Sea stock was as safe as the State which had granted it a monopoly.

Yet there were some strange, disquieting happenings, and curious rumours were afloat. Two days after the public had rushed in to take up the new Subscription, the transfer-books were open again, and then it was found that there had been heavy sales, at figures below the Subscription price. Lord Bathurst reported to his friend Lord Strafford, that "some of the Directors have been playing the rogue, and have endeavoured to run down the stocks, after having sold out their own, in order to buy in cheap again."

But whatever the cause, the fact remains that within a few days of the August Subscription, the stock was down to 820. There was no panic, but

there was a new phenomenon—a disinclination, on the part of investors, to buy. The fall of the bubble companies was at last having an effect on the public. Where once there had been blind confidence, a watchful and critical spirit was manifest.

The South Sea Directors saw that all was not well, and made gigantic efforts to restore public confidence. Great blocks of shares were bought up as they came on the market. Money was also freely lent to investors by the Company, on its own securities. Then it was announced " that the next Christmas dividend on the stock and subscriptions should be thirty per cent., and that a dividend of not less than fifty per cent. per annum be made from and after Christmas next, in half-yearly payments, for not less than ten years, upon the whole stock and subscriptions."

This grand flourish of trumpets, with the former attempts in market manipulation, steadied the market, and the shares, which had sagged to 780, rose again to 810. But this was only a flash in the pan, and the rise only served the purpose of shrewd speculators, who were awaiting a favourable opportunity to unload their shares. Two days later the stock dropped to 700.

Then followed a General Court of the Company, at which optimistic speeches were made, and further concessions made to shareholders. But the slump still continued, and the day after the meeting the price dropped to 550.

The situation was now becoming critical. On

all sides deluded shareholders were telling their friends and neighbours that they had been tricked, and that the Directors were rogues. Walpole, who from the first had not believed in the South Sea scheme, though he had profited by the prevailing mania, was thoroughly alarmed at the situation. He believed that the calamity he had long predicted was imminent, and was closely watching the situation with a view to adopting some plan that would mitigate the effects he anticipated. Craggs, the younger, the Secretary of State, acting on behalf of the South Sea Directors, approached the Bank of England and induced its Directors to meet those of the South Sea Company. On September 16 a conference between the Directors of both Companies took place, the Government being represented by Walpole, James Craggs, the younger, the Postmaster-General and Aislabie, the Chancellor of the Exchequer.

At this meeting of the leading men in politics and finance, the South Sea Directors were overbearing and dictatorial. They demanded an assurance from the representatives of the Bank of England that they would assist their Company. To this old Sir Gilbert Heathcote, who had been a Director of the Bank since its foundation, replied: "I can by no means be so hasty, for old men cannot walk so fast as the young."

They also made it a condition of further negotiations that the Sword-blade Company, an associate concern, should also be included in the treaty.

But Sir Gilbert would have none of it. "By no means," he said, "for if the South Sea Company is to be wedded to the Bank, it cannot be allowed to keep a mistress."

The conference lasted for six hours, but despite Walpole's cajolery and the arguments of the South Sea representatives, the Bank Directors were not impressed; and the utmost they would promise was that they would give the matter further consideration. A suggestion was made that Walpole should draft a provisional agreement, which, if the Bank desired to move again in the matter, would form the basis for further discussion. To this the Bank made no objection.

The draft that Walpole drew up was as follows: "That the Bank of England shall undertake to circularise £3,000,000 of South Sea bonds for one year, at a premium to be agreed upon by the two companies; a subscription to be taken for enabling the Bank to carry on the circulation — per cent. to be paid by every subscriber, and — per cent. upon every call at a fortnight's notice; the contract with the subscribers to be made in the nature and form with former contracts, for circulating Exchequer bills, and the charges of circulation to be borne by the South Sea Company. That, in consideration of this undertaking, the South Sea Company shall pay the £3,700,000 to be paid to the Bank, by notice of Parliament at a price to be agreed upon by the two companies."

On the following day, at a General Court of the

South Sea Company, Sir John Fellowes, the Sub-Governor, told the proprietors that the Directors had thought it for their interest to treat with the Bank of England for the circulation of their bonds. He concluded his speech by saying that he had no doubt that such an agreement would soon be made.

In the general debate that followed, William Pulteney expressed his confidence in the future of the Company, " since," as he said, " it is like to be supported by the Bank of England, a corporation which by wise, though slow and cautious measures, has established its credit, not only at home, but even among foreigners."

On the day this meeting was held, the stock of the Company had fallen to 400. During the next fortnight it dropped to 130. On September 30, fourteen days after the previous meeting, another meeting of the South Sea Court was held, at which it was announced that an agreement with the Bank had been concluded, under which the Bank would accept South Sea stock at 400 instead of the £3,775,000 due to it at Lady Day and Michaelmas in the following year.

The news that the Bank was coming to the aid of the South Sea Company and was prepared to take stock in lieu of cash, ran like wildfire through the City, and relieved the gloom that had settled on Exchange Alley. Despondent shareholders, who had seen ruin staring them in the face, began to hope again. There followed a welcome spurt in the shares, from 130 to 320.

But these new-born hopes were quickly dashed by an announcement from the Bank that the difficulties of the situation made it impossible for them to proceed upon the proposition without the consent of Parliament.

The South Sea Company was now in a desperate position. Its stock had fallen to 175. The bonds of the Company were at a discount of 25 per cent. Thirty-seven million pounds of shares that were unsaleable, were inscribed in the books of the Company. Goldsmiths and private bankers were unable to meet their engagements. Some of these had absconded, and others gone bankrupt. Public credit was shattered and there was a run on the Bank of England. The South Sea Directors, once so mighty and arrogant, were now abased, and a storm of anger rose up against them such as has rarely been known in England. They were branded as rogues who had abused the trust reposed in them and thought of nothing but their private interests. Some members of the Government were also under suspicion.

There was but one man the English people would trust in their extremity—Sir Robert Walpole—and he, through the jealousy of Sunderland, occupied a minor post in the Ministry. But the call for him was insistent. He was the one man who could rescue them from the Slough of Despond into which they had fallen through the villainies of the South Sea promoters.

When the House of Commons met in January,

1721, a Committee of Secrecy was appointed, to investigate the proceedings of the Directors and officials of the South Sea Company. A Directors' Bill was also passed, prohibiting the Directors leaving the Kingdom for a year, and before the end of the next session of Parliament.

It was learnt on January 23 that Robert Knight, the Treasurer of the South Sea Company, had left the country. There can be little doubt that this step was taken with the connivance of the Court Party, the members of which were most anxious that no details of the enquiry into the transactions of the Corporation should leak out.

Two days later the Committee of Secrecy issued a preliminary statement, in which they said: "That they had already discovered a train of the deepest villainy and fraud that Hell ever contrived to ruin a nation, which in due time they would lay before the House; and that in the meanwhile, in order to a further discovery, they thought it highly necessary to secure the persons of some of the Directors and principal South Sea officers, and seize their papers."

The arrest of the Sub-Governor and two Directors followed. Four Members of the House who were also Directors, were expelled from the House and given into the custody of the Sergeant-at-Arms.

By an Order in Council, all South Sea Directors were deprived of their places, and their names struck off the Commission of the Peace.

Meanwhile the House of Lords had been con-

ducting an independent investigation, in which it was disclosed that Aislabie, the Chancellor of the Exchequer, had received large quantities of South Sea stock from the Directors; and he was compelled to resign his Seals of Office. According to the Report of the Committee of Secrecy, he received from the Company £794,451. For how much of this an equivalent was given was not disclosed.

The estates of the Directors were seized and valued at £2,014,123. Of this sum £1,569,523 was confiscated and given as relief to sufferers from the swindle.

The two prime movers in the scheme, Sir John Blunt and Francis Hawes, received scant mercy. Despite his prayers and petitions, the House of Commons would only allow Blunt £1,000 out of his fortune of £183,349; while out of his estate of £40,031, Hawes had to content himself with the odd £31.

With the punishment of the promoters and Directors, Parliament gave its undivided attention to Walpole's plans for the restoration of public credit. Having failed in his attempt to gain the help of the Bank of England, the statesman next brought in a measure for the reconstruction of the South Sea Company. The share capital of the Company was reduced to twenty millions; nine millions of its stock being allotted to the Bank, and nine millions to the East India Company. This Bill was passed through Parliament in spite

of the strong objections of all the parties concerned. But as the Act was optional, its provisions were never put into operation and it became a dead letter.

Ultimately, the State withdrew its claim for the £7,500,000 which the South Sea Company had originally offered for its monopoly ; and the shareholders received 40 per cent. on their stock.

The Bank of England also purchased annuities of the annual value of £200,000. For making this purchase the Bank was authorised to increase its capital by £3,400,000. This addition raised the total capital to £8,959,955.

After weathering the financial cyclone of the previous year, in which it had twice been brought to the verge of ruin, the Bank so much enjoyed public confidence that it was able to dispose of the new stock readily at 118 per cent. and so net a profit of £610,169.

CHAPTER IV

SIR ROBERT WALPOLE

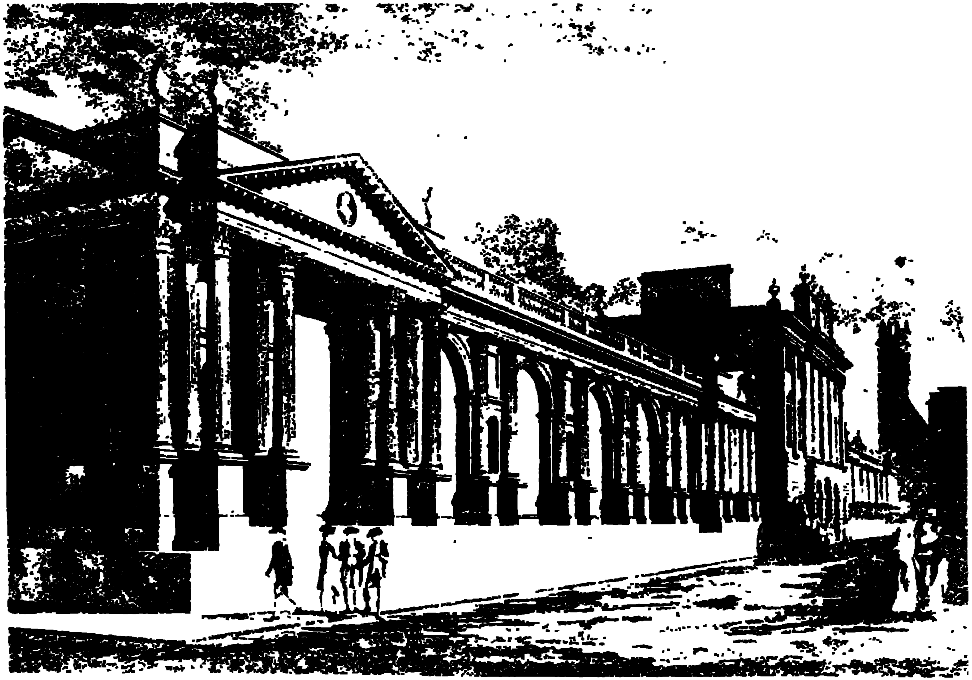
FOR twenty years, following the South Sea Bubble, Britain was under the guidance of Sir Robert Walpole, the first of the great Commoners, and during that period the country was at peace. Walpole was the first English statesman to appreciate the value of the Colonies as avenues of commerce. He relaxed the navigation laws in their favour, and in consequence of this and other measures, the trade between these distant lands and Britain expanded enormously. New industries sprang into existence, old ones were revitalised, and in a few years the losses incurred through the South Sea madness were more than made good. Landlords and farmers also enjoyed remarkable prosperity, and the value of agricultural land was trebled.

The nation's store of wealth increased amazingly. All classes shared in the prosperity, and in the race for riches, politics were forgotten. The Tadpoles and Tapirs of the time found their occupation gone. The Tories were too weak numerically to form an effective opposition, and found it a hopeless task to undermine Walpole's influence. In the session of 1725 only one Division was taken in the House of Commons.

These twenty years of peace were to the Bank of England as an oasis in the desert. The Treasury made no insistent demands for advances. The Governor and Directors were undisturbed by panic or crisis. Its enemies were fewer than of yore, but its friends were now legion. The goldsmith-bankers had not forgotten old jealousies, and regarded the Bank as a monopolist that deprived them of legitimate profits. A few high Tories and Jacobites also looked upon it with disfavour. But in the eyes of the multitude it was no longer a Whig but a national institution. The animosities of the Revolution were nearly forgotten; and those who had tried to strangle it at birth had nearly all passed from the scene.

This period is principally notable for a change in policy on the part of the Bank, which added greatly to its stability and has since influenced its fortunes through the change and stress of two centuries. From the date of its establishment until 1722 the Bank possessed no fund on which it could draw at a time of emergency. When such a need occurred the Directors had had no alternative but to make a call on their proprietors. This practice was disconcerting and inconvenient to some shareholders, and seriously embarrassed others.

Every year the Bank had paid out all its profits to shareholders and left nothing in reserve. As these profits depended to a considerable extent on the course of national affairs, they varied. Sometimes they were as low as 6 per cent.; at others



THE PRINCIPAL FRONT OF THE BANK IN THE 18TH CENTURY

they were as high as 15 or 18½ per cent. The disadvantage of this, to people whose income was dependent on investments, was apparent. So it was decided in 1722 to put aside a percentage of the profits and establish a reserve fund, or Rest, as it is generally called.

With the country's growing commerce the business of the Bank of England continued to expand, and more clerks were needed to carry on the work. The large Hall of the Grocers' Company, in which Addison saw Governor, Directors and Staff quietly carrying on the routine duties of banking, gradually became too small for the crowd of new assistants. In 1732, after occupying the Grocers' Hall for thirty-eight years, the Directors began to look for more permanent quarters. Finally they decided to buy Sir John Houblon's house and garden in Threadneedle Street. The property was acquired; and on August 3, 1732—two hundred and four years ago—the foundation-stone of a new building was laid, and the long and honourable association of the Bank with that famous thoroughfare began.

The Bank's new offices were completed in less than two years, and on June 5, 1734, the staff of the Bank left Grocers' Hall and settled in their present quarters.

In 1722 there were rumours of a Jacobite plot. The Regent of France, the Duke of Orleans, gave George I a circumstantial account of a rising that had been planned by supporters of the Pretender.

According to this report, one of the first points of attack was to be the Bank of England, which was to be burnt and pillaged. This news caused some alarm in official circles, and a special guard was installed in the Bank premises. The English leaders of the Jacobites, Bishop Atterbury of Rochester, who was discovered to be in correspondence with the Pretender, was deprived of his bishopric, and banished from the kingdom, by Act of Parliament.

While Walpole remained at the helm there was little danger of a Jacobite invasion; for France was the only country from which the Pretender could look for help, and with that country the English statesman had always remained on terms of friendship.

But when in 1744 Pelham was Prime Minister, war between the two countries again broke out, and a raid on Scotland was planned by the French Admiralty. A powerful fleet, under the direction of Charles Edward, grandson of James II, sailed for the North; but a great storm wrecked the fleet and dashed the hopes of the Jacobites.

The next year the Young Pretender again sailed for Scotland, but this time with only seven companions. For a time it seemed that the Stuart cause was dead, and some of the Scottish nobles Charles met seemed embarrassed by his appearance in their midst. Scotland had grown prosperous since the Act of Union, and its hatred for the Hanoverians had cooled. But when Charles had been curbing his impatience for three weeks, a

number of Highland chiefs gathered round him. His charm of manner stirred the embers of their ancient attachment to his house and soon the clans rallied round him. Towards the end of August he led his small army to Perth, and at every halting-place recruits gathered to his standard. When he continued his march from Perth to Edinburgh, he was the proud leader of an army. Proclaimed King of Scotland in Edinburgh, the Young Pretender then set out to meet Sir John Cope, the English general, at Preston Pans, and put the 2,000 soldiers he commanded to flight. Thousands of waverers at once joined the Young Pretender's army, and Jacobite hopes ran high. Prince Charles was now master of Scotland, though the people of the Lowlands gave him neither sympathy nor support.

The news of Charles' landing in Scotland had caused little or no anxiety in Whitehall. But when, a few weeks later, it was known that he had collected an army and routed Sir John Cope, there was gloom in Government circles, and the Directors of the Bank of England were perturbed. These anxieties were not lessened when tidings came that the Pretender and his army of Highlanders had invaded England and had marched, without opposition, to Derby by way of Preston and Manchester. It was noted, however, that though Charles and his followers had received an enthusiastic welcome in Manchester and Derby, very few adherents had volunteered to help him.

For a few days the issue trembled in the balance. It was known that some of the English nobility and gentry were adherents of the Stuart cause, and that he could count on influential support in the City. But despite the Young Pretender's pressing invitations, none responded to his call.

Long before tidings reached London that Charles and his supporters had begun that disastrous retreat, of which so many writers have told the pitiful story, the City was the prey of alarmist rumours. It was believed that a large French force had landed in Scotland, which was to strengthen an army of reinforcement that was marching to the relief of Prince Charles in England. More dependable was the news brought in by travel-stained couriers, that the Prince had levied contributions on the inhabitants of Glasgow, Manchester and Derby.

Stout City merchants shivered with apprehension as they realised that they might soon become the victims of Jacobite cupidity, and the brokers of the Exchange began to fear the worst. The Prince's manifesto also disturbed the public mind. In this document he declared that the National Debt was contracted under an illegal Government and was a heavy burden on the nation. He also added that his father would consult Parliament about it before coming to any decision.

This was not reassuring to holders of Government stocks, whose grandparents knew the exact value of the promises of Stuart Princes.

For a day or two business in London was at a standstill. Then panic broke out. There was an orgy of selling on the Exchange, and the Funds fell to 49 on December 6. On that day all the shops were closed, and the only business places showing signs of activity were the shops of the goldsmith-bankers, from which depositors were withdrawing their money.

There was also a run on the Bank of England, for which its Governor and Directors were quite unprepared. This was due not only to the natural nervousness of investors, but also to Jacobite sympathisers in the City, who had organised a raid on the Bank's reserves for the purpose of helping the Young Pretender. It was also, according to Francis (*History of the Bank of England*, 1848) assisted by the goldsmith-bankers, as an act of retaliation on the Bank of England, for an earlier raid arranged by that institution on the Bank of Messrs. Child. According to this historian, the Bank authorities were very jealous of the high standing of this House, and in order to diminish it, collected a great quantity of Child's receipts, which found a ready circulation, like notes. The intention of the Bank Directors was to present these receipts for payment, at a time when Child's would find it difficult to meet the demand. But Child's in some way discovered the plot, sought the help of some wealthy clients, and when at last the receipts were presented for payment, Mr. Child sent one of his partners to the Bank with a cheque

from the Duchess of Marlborough for £700,000. The value of the receipts, amounting to between £500,000 and £600,000, was then counted out to the Bank's official in Bank-notes. This story lacks verification, though similar tricks were frequently played by private banks at this period.

The run on the Bank of England in 1745 was not so easily dealt with. As already stated, they were taken by surprise, and needed time to rally their wealthy friends, of whom they had many. To gain time they resorted to stratagem. Large sums of money were handed out to employees of the Bank, who went out with bags of money at one door, and delivered them to clerks who were waiting at another. These in their turn paid in the money to the cashiers. Needless to say, these tellers took ample time to count the money brought in; by these means precious time was gained, and the news that there was a run on the Bank reached the ears of its friends before the supply of cash ran out.

The merchants and other traders in the City took so serious a view of this affair that a meeting, hastily summoned, was held at Garraway's Coffee-house of the leading business men of all departments of commerce. At this gathering it was emphasised by speaker after speaker that the Bank of England was the chief bulwark of British credit, and that without it the great and growing volume of trade at home and abroad could not be carried on. The following Declaration was then drawn up and signed by all present:

"We, the undersigned, merchants and others, being sensible how necessary the preservation of public credit is at this time, do hereby declare that we will not refuse to receive Bank-notes in payment of any sum of money to be paid to us, and we will use our utmost endeavours to make our payments in the same manner."

Within twenty-four hours this manifesto was signed by 1,140 traders and business men.

Such an impressive demonstration of confidence in the Bank showed that this institution was a vital part of the mechanism of commerce, and that the Bank and the trading community had one interest in common, the maintenance of public credit. The merchants' Declaration had the desired effect. The run on the Bank ended as suddenly as it had begun. With the retreat of the Pretender from Derby, London citizens breathed freely again, and commerce resumed its normal course.

Three years before the Jacobite rebellion, the question of the Bank's Charter again occupied public attention. The time had come for its renewal or extinction, and as on former occasions, the Bank's enemies, marshalled by the goldsmiths, raised an outcry against "this monstrous monopolist." But the Bank was no longer a party institution, and therefore excited less enmity than in former times. Moreover, the Government was, as usual, in want of money, and when the time for settling the matter arrived, the Bank found no

difficulty in gaining a renewal of the Charter, in return for a loan to the Government of £1,600,000, free of interest. This sum was raised by a call on the proprietors, and the capital total thus became £9,800,000. The Bank's monopoly was confirmed, and it was stipulated that its privileges should be extended until 1764, and that they should not then be cancelled without twelve months' notice being given. It was also agreed that all the capital advanced to the Government must be paid off before a cancellation of the Charter.

In 1746 the Government was again in financial difficulties. Military expenditure caused by the Jacobite rising had made a heavy drain on the Treasury's resources. To meet this shortage the Bank made a 10 per cent. call on its proprietors. The Bank was empowered to cancel £986,000 of Exchequer Bills, in return for an annuity of 4 per cent. The paid-up capital, by this transaction, was raised to £10,780,000.

The year 1750 is notable in financial history as that in which the rate of interest on the National Debt was lowered to 3 per cent. The Consolidated 3 per cent. stock was issued, which continued in existence till, 138 years later, Mr. Goschen carried through a further Conversion and reduced the interest first to 2¾, and then to 2½ per cent.

The credit for this enterprise belongs to Henry Pelham, the brother of the Duke of Newcastle and former colleague of Sir Robert Walpole. Pelham shared his old chief's interest in financial reform,

and the success of his effort to reduce the State's commitments won him the admiration of succeeding Chancellors, who were able to appreciate the enduring value of his achievement.

The interest on the 4 per cent. annuities held by the Bank was reduced as from December 25, 1750, for seven years, to 3½ per cent. and thereafter to 3 per cent. It was agreed also that the Bank should pay off those annuitants who did not agree to the arrangement.

The total Debt of the Government to the Bank of England, at the time of this Conversion, was £11,868,000.

Before the Bank Charter was due to expire in 1764, the Bank Directors opened negotiations for its renewal. The Government, as on former occasions, saw in this a favourable opportunity of obtaining an equivalent benefit. This time the Bank made a present of £110,000 to the nation, and also lent the Government a million pounds on Exchequer Bills, for two years, at 3 per cent. It was also by the same Act of Parliament declared a felony, without benefit of clergy, to forge powers of attorney for receiving dividends, transferring or selling stock, or for personating the proprietors of stock for the purpose of defrauding them of principal or interest.

In 1773 a further Act was passed, making the copying of the watermark of Bank-note paper punishable by death. It was also provided that "no person should prepare any engraved paper as

promissory-note, containing the words 'Bank of England' or 'Bank Post Paper,' or expressing any sum in white letters on black ground in resemblance of bank paper, under the penalty of imprisonment for six months."

Again the Bank Charter was renewed in 1781 until 1812. This was done under exceptional circumstances. The Charter had yet five years to run, but the Government was acutely embarrassed by a steadily mounting pile of debts that had accumulated during the American War of Independence, which was just drawing to a close. Public credit was at a low ebb. The Consolidated Stock was down to 58, and the Treasury coffers were empty. The Government asked the Bank for a loan of two millions on the most favourable terms possible, and the Directors of the Bank thought it an opportune time to secure an extension of their Charter. As the Government readily granted this, the Directors in their turn were disposed to be generous, and only charged 3 per cent. on the loan.

In the following year a call of 8 per cent. was made on the proprietors of the Bank, for the purpose of raising part of the money required for this advance.

This call brought in £862,000, and increased the Company's capital to £11,642,400.

The history of the Bank is a part, and a vital part, of the history of modern England. The source of the Bank's strength has been England's

commercial and industrial power. As one has grown, so has the other; and the fortunes of both are inextricably interwoven. In telling the story of the Bank it is necessary, therefore, to refer in some detail to passing events, in order to explain the causes of the perils it encountered and the dangers it surmounted.

In the sixty years that had elapsed since the Bank was founded, England was in a state of transformation. Its fortunes had taken a sudden upward climb. Its wealth had grown enormously. New industries had taken root, and were flourishing. The Union with Scotland had increased the nation's resources and added to its prestige. An immense acreage of waste-land had been reclaimed; tiny villages had grown into great towns, and the population of the country had increased by millions.

In the same interval the Bank had raised its capital ninefold and had developed from a party organisation into a corporation of world-wide influence.

Though the Peace of Aix-la-Chapelle put an end to the fighting in Europe in 1748, the struggle for colonial supremacy in India and America still continued. For a time France had much the better of the conflict. In America as in India, they had mapped out plans of expansion, which they developed with remarkable energy. At first they had been content to colonise Cape Breton and parts of Canada. But the Marquis of Montcalm

nourished greater ambitions. The English colonists clung to the coasts, but the French pushed along the great chain of lakes, and not only established strong forts there, but in the south, on the banks of the Ohio and as far as the Mississippi, Montcalm also established settlements and military posts. Montcalm further strengthened his hold on the occupied territories by attaching the Indian tribes to his cause.

Finding themselves cut off from the great natural resources of the country, the British colonists tried to break the chain that hemmed them in. British forces, led by Washington in 1754, and Braddock in the following year, failed after repeated attempts to capture Fort Duquesne.

At this juncture the Seven Years' War broke out and the British-American colonists were left for a time to their own resources. In India also the French cause was at first triumphant, thanks to the initiative of Dupleix, the Governor of Pondicherry.

The Mogul Empire had crumbled in ruins and the vast peninsula was without any settled government. Dupleix seized the opportunity to strengthen his hold on India. He took possession of many British settlements, treating the traders with harshness; trained and employed a large number of natives as soldiers, and made himself master of the Carnatic. The East India Company, which owned the British settlements in India, had only a few soldiers in the country protecting the

factories, and had no force capable of resisting the aggressive Frenchman, who made no secret of his determination to build up a French empire in India.

Among the captives taken by the French in Madras was Robert Clive, a young clerk of the East India Company. Some of the prisoners were taken to Pondicherry and displayed as captives by the vainglorious French commander. Clive escaped in disguise to a distant British settlement, and so was spared this indignity.

He now applied for a commission in the Company's forces. As fighting men were few, this was readily granted. Trichinopoly was then the only city in the Carnatic that had not fallen into the hands of the French. They and their native allies were now besieging it and subjecting its fort to a terrific bombardment. Clive submitted a plan for relieving the beleaguered fort and offered to carry it out with a small force. From a young, untried officer, the proposal seemed audacious. But Major Lawrence, his superior officer, saw that Clive was not as other men, and agreed to take the risk.

With a few British soldiers and some hundreds of sepoys, Clive captured Arcot, the capital of the province, and its enormous fortress; and held the place for fifty days against thousands of besiegers who had withdrawn from Trichinopoly to attack him. After the siege was raised he fought and routed the French and their allies in battle after

battle, and drove his enemies from the settlements. In an incredibly short time Dupleix's power in the Carnatic was shattered, and Clive's first task was accomplished. Illness followed his strenuous exertions and he returned to England to nurse himself back to health.

When the so-called Peace of Aix-la-Chapelle was signed in 1748, none of the belligerents gained advantage from it. The enmities of these warring potentates was unappeased. But they needed a breathing-space in order to prepare for a greater and more decisive struggle. It was not long in coming. In 1756 the Seven Years' War began, in which Hungary, Saxony, Russia, Sweden, France and Spain were ranged against Prussia. As George II was King of Hanover as well as Great Britain, and as British interests in India and America were menaced by the two powers of the House of Bourbon, France and Spain, the English Government decided to support Prussia.

At the outset of the war, the Duke of Newcastle directed English affairs, but he soon proved himself to be the weakest War Minister that England has ever known. He was ignorant and vacillating, lacked administrative ability and was quite incapable of conducting a great war. When the struggle began there were but three regiments in England fit for service. Newcastle's timidity seemed to affect the fighting services and for a time the nation endured a series of humiliations happily rare in its annals.

Port Mahon in Minorca capitulated to the Duke of Richelieu: Admiral Byng, with a powerful fleet under his command, retreated before the French warships: and the Duke of Cumberland with an army of fifty thousand men, on the Weser, retreated before a French army to the mouth of the Elbe, and was compelled to disband his forces. In India, Surajah-Dowlah stormed Calcutta and suffocated the principal British residents in the Black Hole dungeon; while in America, Montcalm continued his victorious campaign and captured the forts of Oswego and Ontario.

These "unfortunate incidents" plunged the nation in despair. Savage remonstrances were sent to the House of Commons from several counties; and the pamphleteers of the time mournfully recorded the passing of England's glory.

Even more shameful was the fact that the Parliamentary majority was in the pay of Newcastle and refused to support William Pitt, the one man in England who could carry the war to a successful conclusion. Pitt took office, when in 1756 Newcastle resigned, after the first disaster of the war. But after four months of office Pitt also resigned, through lack of Parliamentary support. Pitt disdained to resort to the bribery which Newcastle had cultivated as a fine art. In 1757 the two Whig statesmen joined forces. Newcastle managed the Secret Service Fund and bought the necessary Parliamentary support—Pitt took command of the War and foreign affairs.

From the moment Pitt controlled the machinery, England's striking-power was doubled. The despondency that hung over the nation like a mist was dissipated by his magnetic personality and unshakable faith in the destiny of the British people. His energy and confidence revitalised the Army and Navy, and made officers and men realise they were fighting a winning cause.

His plans were bold and skilful and carried out with energy and despatch. He understood men, and in appointing his "organisers of victory" took no account either of seniority or social position. He left the land fighting in Europe to King Frederick of Prussia and helped him generously with subsidies; harried the French ports and established a blockade that gradually cut off France's communications with America and India; supported Clive in his conquest of Bengal with a squadron of warships; and broke the power of France in America by blockading Louisberg, and capturing the line of forts that cut off British settlers from the interior of the country.

The French had planned an invasion of Hanover and had collected a large army on the northern coast, with which they intended to land in England. The former attempt was foiled by the gallantry of the British infantry at Minden, where the French cavalry were utterly routed; and England was freed from the fear of invasion when in the same year (1759) Admiral Boscawen destroyed the French fleet at Brest; and Hawke with amazing

daring, steered his warships through mountainous seas and a raging gale, into Queberon Bay, where his guns battered the stout oak ships of France to matchwood.

Month by month in that wonder year 1759, came news of fresh triumphs; two of which turned the current of world history, and added vast territories in Asia and America to the British Empire.

On the field of Plassey, Robert Clive won for England her Indian Empire, and as Edmund Burke said "cast into the heart of Asia new manners, new doctrines, new institutions."

Equally decisive was Wolfe's victory on the Heights of Abraham in Canada, which banished the French from America.

Pitt was at the height of his fame when in 1760 George II died; but he stood alone, and derived his influence solely from popular favour. The majority of Members of the House of Commons were paid hirelings of the Duke of Newcastle. George III, and Pitt's colleagues in the Administration, were inordinately jealous of his ascendancy. The people regarded him as the saviour of the country. To the young King he was a "trumpet of sedition."

With the aid of Newcastle, George got rid of Pitt. Then, in his turn, Newcastle was dismissed, and for the first time a Hanoverian King became an absolute ruler of England. The long dominion of the Whigs was ended and Tory ministers, sub-

servient to the Royal will, took their places. The Seven Years' War was brought to an end by the Peace of Paris in 1763.

This great struggle had been waged on the grand scale. Nearly every country in Europe had borne its part in the conflict. The marching armies left a long and ever-lengthening trail of misery and desolation behind them. Granaries were emptied, cattle raided, peasants' farms pillaged and burnt, and the lives of hundreds of thousands of men sacrificed, to satisfy the greed and ambition of a few ruling sovereigns and statesmen.

At the end of the war the Queen of Hungary's thirst for revenge was unslaked, for Frederick of Prussia, despite the formidable coalition that opposed him, succeeded in holding his own and did not yield one inch of territory. Pitt's generous subsidies had saved Prussia from partition.

French aggression and Spanish jealousy had compelled England to protect her subjects in India and America, and incidentally, to establish a vast Empire overseas.

Many merchants amassed great fortunes through this long war; and the artificial prosperity caused much speculation. With peace came a general collapse and a phenomenal number of serious bankruptcies. Many Hamburg merchants were unable to meet their engagements, and nineteen leading Dutch firms went bankrupt. There were many failures in France, Germany and Italy, and for a time business was almost at a standstill.

The effects of this crisis were also felt in England, where a number of export merchants, who dealt extensively with Dutch and German firms, incurred heavy losses. These houses were only saved by the intervention of the Bank of England. Its prompt action in advancing nearly a million, saved the London Exchange from a serious crisis.

But nine years later, in 1772, England was faced by more serious financial troubles. These, as on previous occasions, had been due to over-speculation. There had been remarkable prosperity in Britain in 1770 and 1771. The export trade had developed amazingly and the demand for British wares was on the increase. The Industrial Revolution had begun. Ingenious inventors had discovered or invented new processes, and were transforming manufacturing methods. Cotton weavers and spinners, iron-smelters, steel-makers and others, were beating out new paths to wealth, and making England pre-eminent in commerce. The country was on the flood-tide of a roaring trade, and on every side wealth abounded.

Eager to share the good things that were going, speculative investors and gamblers took a hand in the game—with disastrous results to commerce. A feverish gamble began, which was carried far beyond the limits of prudence.

The inevitable reaction followed. A fall in the price of stock, followed by heavy failures, caused widespread alarm. Panic followed. The Bank, in accordance with its usual policy, came to the

aid of many of the important business-houses involved, but was powerless to avert the crisis; and in 1772 there were no fewer than 525 failures, or double the number that had been in England since the year of the South Sea Bubble.

From England the trouble spread to the Continent, in every part of which the mania for speculation had been manifest. As far away as Russia the English merchants were heavily involved and were saved from ruin by the Russian Empress, who gave them unlimited credit on her own bankers. Traders in other countries were not so fortunate. Through lack of public confidence, business was utterly disorganised, and many months elapsed before credit was restored and money resumed its normal functions.

After the crisis of 1772 Britain passed for some years through the valley of humiliation, and this experience was due principally to the blind stupidity and vindictive temper of George III. The American colonies revolted and declared their Independence; England lost her supremacy on the seas to the French and Spanish Fleets, which were aiding the Americans; and the Northern Powers were banded together against her in armed neutrality.

In November, 1782, the independence of America was acknowledged in the Treaties of Paris and Versailles.

Through the Seven Years' War, and the War of American Independence, more than £176,000,000

had been added to the National Debt, and in the second of these conflicts trade had been much hampered by restrictions imposed by the British Government on export business. With the removal of these hindrances the pent-up waters of British commerce descended with impetuous rush on the world markets from which they had long been excluded. The Industrial Revolution was already an accomplished fact. Continental buyers rubbed their eyes in amazement when they examined the new English wares, and saw that they were offered at prices so low that they were beyond the reach of competition.

Once more men's heads were turned by the prospect of sudden wealth, and the gambling mania developed. As in former times, there was a general demand on the Bank for gold. So insistent was this demand and so low was the Bank's stock of specie, that the Directors became anxious and began to wonder whether they should not suspend payments. For months the situation was critical and it was only by restricting issues over a period of some months, and refusing all advances to the Government on the loan of that year, that the danger was averted. In October, 1783, the withdrawal of gold had ceased, and the inflow had begun.

The Gordon Riots were the most serious outbreak of the kind that have taken place in London since mediæval times. These disturbances, the outcome of religious intolerance, were instigated by Lord

George Gordon, a bigoted Protestant, who desired to prevent the passing of a Bill by Parliament, granting certain privileges to Roman Catholics. The riots broke out on June 2, 1780, and lasted nearly a week.

In that short period hundreds of churches and chapels were plundered ; the houses of well-known Roman Catholics were despoiled ; the gaols of the King's Bench, the Fleet, Newgate and Bridewell, were forced open and the prisoners released. As an agreeable interlude to this programme of pillage and burning, the rioters assaulted and robbed bishops, peers and Members of Parliament, whom they met and recognised in the streets.

The rioters described themselves as members of the Protestant Association, but they were not so intolerant as to confine their attentions to people of one religion only, but with a fine spirit of impartiality treated Protestant and Roman Catholic alike.

The police seem to have made no attempt to protect life or property. In one of his letters to Mrs. Thrale, Dr. Johnson says : " On Wednesday I walked with Dr. Scott to look at Newgate, and found it in ruins, with the fire yet glowing. As I went by, the Protestants were plundering the Sessions House at the Old Bailey. There were not, I believe, a hundred ; but they did their work *at leisure, in full security*, without sentinels, without trepidation, as men lawfully employed in full day. Such is the cowardice of a commercial place."

After the storming of Newgate Prison, it was told the Governor of the Bank that the rioters were on their way to Threadneedle Street. Under his direction hasty preparations were made for the defence of the Bank premises, which were not so vulnerable as ordinary mercantile premises. A detachment of soldiers was sent by the War Office and some of these lined the loop-holed walls of the Bank; others were stationed outside the walls. Some members of the staff, who were armed with muskets, took up positions on the roof, and received instructions to fire on the mob, if they succeeded in forcing an entrance. A band of citizens, enrolled as a volunteer corps, also assisted the soldiers.

For the first time—in this raid on the Bank—the rioters met with determined resistance, and their attack was easily repulsed. They showed none of the daring that had marked their attacks on the gaols, and appeared to be unnerved by the sight of the soldiers. After a volley of stones and brick-bats they tried to rush the building, but the firing of a single volley by the troops was sufficient to send them scurrying for shelter.

For six days London was under a reign of terror, and the lives and property of hundreds of thousands of inoffensive people were at the mercy of the rioters, and there was no force in the metropolis sufficiently strong to try conclusions with them. But the failure of the attack on the Bank at last made it clear to the Government that stern and

prompt measures must be adopted, if these lawless bands were to be broken up. At last this desirable object was attained. But it was not until an army of 20,000 men had been assembled in London, that the rioters were finally defeated and dispersed, and this was only accomplished after a fierce engagement in which 210 of the looters were killed and 248 wounded. Of the latter, 75 died in hospital.

The leader of this mob, Lord George Gordon, was arrested and tried for high treason. But rank and birth, as well as the ingenuity of his lawyers, saved him from the fate of his misguided followers, and he was acquitted.

As the Bank was a Corporation of private persons and not a Government institution, it had never received official protection in the eighty-five years of its existence. But as it was the Bank through which the Government conducted its financial affairs, and was entrusted with the management of the currency and the National Debt, it was felt that an institution so intimately associated with the Administration, should have some measure of protection.

So, since the Gordon Riots, it has been the practice for a company of Footguards to take up its quarters at the Bank every evening, and remain there until six o'clock of the following morning.

During the Gordon Riots the authorities of the Bank discovered that the adjoining tower of the

church of St. Christopher-le-Stocks would be a good position from which to storm the Bank. As a measure of precaution they procured its removal, and on the site of the church an extension of the Bank was built.

CHAPTER V

TRADE CHANGES—PROVINCIAL BANKING

IN his *History of the Eighteenth Century* Lecky points out that: "The first and most obvious fact is that the triumphant issue of the great French war was largely, if not mainly, due to the cotton-mill and the steam-engine. England might well place the statues of Watt and Arkwright by the side of those of Wellington and Nelson, for had it not been for the wealth that they created, she could never have supported an expenditure, which, during the last ten years of the war, averaged more than 84 millions a year, and rose in 1814 to 106 millions; nor could she have endured without bankruptcy a national debt which had risen in 1816 to 885 millions."

The story of this amazing transformation which changed England from an agricultural country into the workshop of the world, is one that merits more attention than it has received from historians of the eighteenth century.

This vast expansion of commerce was fostered in many ways; amongst others, by the development of new markets, the acquisition of trading concessions, the great extension of the credit

system due to the establishment of the Bank of England, and many provincial banks, and—most important of all—the invention and discovery of improved methods of manufacture.

But the development of the industrial system was even more important than the expansion of trade. The impact of this economic system on the older agrarian organisation caused profound and far-reaching social and political changes. The factory superseded the workshop, and the machine, the tool. The craftsman was deprived of the joy of creation and lost his cherished independence. Instead of an individual he became one of a herd of machine-minders. The landworker, hearing of the high wages paid in the factories, deserted the plough and joined the crowds that were making the towns hives of industry.

As industrialism increased in importance, agriculture suffered a decline. Under the old economic system the territorial magnate and the parson reigned supreme. With the exception of London, there were no large towns, so that there was no one to dispute the sway of the squire. As already mentioned in an earlier chapter, the rise of the London merchants to wealth and influence aroused the alarm of the landowners, who tried, through an Act of Parliament in Queen Anne's reign, to exclude from the House of Commons men who were not possessed of landed property.

But the advent of the ironmaster and cotton-spinner was a more serious menace, that in time

was to lessen their power and threaten the very existence of their order.

The Industrial Revolution may be said to date from those closing years of the seventeenth century when the Bank of England was founded. The Huguenot refugees, who fled from France after the Revocation of the Edict of Nantes in 1685, were among the earliest pioneers of the new movement. These immigrants gave a stimulus to British commerce by introducing several new industries, amongst others that of silk-weaving. They made Spitalfields in London a centre for this craft, and also established it in Norwich and Coventry. From silk-weaving originated the new trade of ribbon-making in Coventry. In Derby, Sir Thomas Lombe carried on this manufacturing business on a large scale, using for the purpose self-throwing machinery imported from Italy. In 1731 when the patent for Lombe's machinery expired, a similar machine was used by silk-manufacturers in Stockport and Macclesfield.

For many years this industry was very prosperous, and by 1768 there were as many as six silk-mills operating in Stockport. But the difficulty of obtaining the raw material, which was under Italian control, and the formidable competition of cotton, were obstacles that in time caused silk-weaving to become one of those moribund trades that called forth the tearful lamentations of the late Joseph Chamberlain.

If we turn to the key industries we get nearer to

the secret of the immense expansion of trade that marked the Industrial era.

In the year 1700 less than three million tons of coal were consumed annually in England. Its use was confined to domestic purposes. For smelting iron-ore, charcoal alone was used, pit coal being found unsuitable for the purpose. But in 1709, Abraham Darby I, at his works at Coalbrookdale in Shropshire, rediscovered an old process in which coal was first coked and then mixed with the ore. Previous to this discovery, charcoal had been so scarce owing to the thinning of the English forests that iron-founders had been dependent on imports of iron from Scandinavia. Now the native iron came into use, and the demand for coal constantly increased. In addition to this, the first Darby brought with him from Holland improved methods of casting pots of copper and iron, and so produced many domestic articles that had hitherto been made of wood. His son, A. Darby II, developed his father's process of using coal for smelting, and became the largest producer of cast-iron in the country. Darby III showed the possibilities of the material by building the first iron bridge, in 1779, across the Severn near Coalbrookdale.

Of the many inventions of that wonderful era, the most remarkable in its effects was Watt's steam-engine, a greatly improved form of an older model. This he invented in 1765, and patented four years later. Now his real difficulties began. The invention had made but small demands on his

fertile mind and he had received assistance from clock-makers in constructing the model. But at that time there were no trained mechanics in Scotland capable of making the various parts of the working engine. When he consulted the local blacksmiths and other artisans, and showed them drawings of the parts he wanted, they shook their heads and told the inventor that they were unable to help him.

For a time the model steam-engine was laid on one side and Watt devoted himself to canal engineering. Then, in the course of business, he encountered Matthew Boulton, a hardware manufacturer of Birmingham, and Fortune smiled upon him. The Birmingham man proposed a partnership for the purpose of exploiting the patent, and the firm of Boulton and Watt was formed in 1774. Boulton was a skilled engineer and a capable organiser. He systemised the business of engine-making and trained workmen to make the tools and machines for forming the different parts of the steam-engine. By the end of 1775 two engines had been delivered, one to the famous Iron King, John Wilkinson of Broseley, and the other to a local colliery.

Watt afterwards made various improvements in his steam-engine, but from the first the new machine proved of immense value to the proprietors of tin and coal mines. Many of these were flooded out and were lying derelict. Watt's engine saved these properties by providing a cheap

and easy method of pumping and hauling. The output of tin and coal greatly increased, and mining became one of the most flourishing of Britain's industries. To the iron trade the steam-engine was doubly valuable, for in addition to a plentiful supply of cheap fuel, it also provided a steam-blast for the smelter, and so finally banished charcoal from the last of the blast furances.

But it was in the textile trades that the steam-engine won its greatest triumphs. The changes in the cotton trade kept pace with those of coal and iron. First came the change from the home to the factory, with the use of water-power. Then came the revolutionary inventions of the second half of the eighteenth century. In 1733, John Kay, a Lancashire man resident in Colchester, invented a picking peg contrivance known as the "flying shuttle," which enabled a cotton-spinner to double his output. In 1760, Robert Peel, the grandfather of the more famous Sir Robert Peel, introduced in Lancashire the first carding-machine into the cotton factory. Seven years later one of Peel's employees, James Hargreaves of Blackburn, in 1770, invented the "spinning jenny," a hand machine which enabled one man, by means of a handwheel, to spin simultaneously sixteen cops of yarn, and a few years later as many as 120.

In 1769, close on Hargreaves' heels, came Richard Arkwright with his invention of a machine for spinning cotton between rollers. Arkwright was the most prominent figure among that little

group of inventors that made Lancashire a source of untold wealth. Arkwright came from Preston-by-the-Ribble, whence he migrated to Bolton. Here he set up a barber's shop in a basement and over his establishment a framed showcard announced that "The subterranean barber shaves for a penny." Many stories, more or less untrustworthy, are told of the desperate struggles and hardships that marked his early career, but the main facts are well established. Before he took out the patent for his new machine in 1769, he set up in business in Nottingham in partnership with a hosier named Strutt. Within four years the new firm had set up three factories in Derbyshire. Another factory, with accommodation for 600 workers, was established in Manchester a few years later. Arkwright's machine was known as the water frame, as it was driven by water-power. Arkwright acquired great wealth and received a knighthood.

Another important invention was that of Samuel Crompton, the son of a former weaver, who made a machine that combined the essential features of Hargreaves' jenny and Arkwright's process. Crompton's machine was known as the "mule." With the mule it was possible to spin yarn of such fineness that it rivalled the most delicate products of the Orient.

A steam-engine supplied by Watt was first used in a Nottinghamshire cotton factory in 1785. Ten years later the use of steam-power was extended to forty-seven cotton mills and eleven breweries.

Side by side with these great developments in the coal, iron and textile trades, there were other changes that helped them, and fostered other industries. The most notable of these was the improvement in transport. " Good roads, canals, and navigable rivers," said Adam Smith, " put the remote parts of the country more nearly upon a level with those in the neighbourhood of the towns. They are upon that account the greatest of all improvements." Long before Smith wrote his famous book, the eighteenth-century trading classes had discovered the truth of this dictum for themselves.

Road improvement may be said to date from 1663, when the first Turnpike Act was passed. By the provisions of this and the many subsequent measures that were legalised, the inhabitants of a parish or district were empowered to form a trust for the improvement of some particular section of a road, and to reimburse themselves by levying tolls on users, other than foot-passengers. This Act was taken advantage of by landlords, farmers and others who desired to get their goods to market expeditiously. This was impossible under the prevailing conditions, for the parishes through which the roads passed had no funds for improving and making them fit for the use of vehicles. By the end of the seventeenth century the demand for transport facilities grew more insistent, and Turnpike Trusts were formed for many sections of the great highroads, in all parts of England.

The turnpikes effected a great improvement, though they covered only a small part of the road mileage of the country. They would have been quite inadequate for the growing needs of industry if they had not been supplemented by the canals which Brindley, Telford and others had been constructing.

James Brindley, born in 1716, was an illiterate wheelwright, but like almost all the inventors mentioned in this chapter, he had the divine spark that more than compensated for the lack of technical training. In 1752 he was occupied in draining coal pits with a fire-engine. Then for a time he made machinery for a silk mill. In 1759 came his grand opportunity for showing his real worth, when he was commissioned to build a canal from Worsley to Manchester for the Duke of Manchester. This he accomplished successfully, and then received instructions to extend the waterway from Manchester to Runcorn, at the mouth of the Mersey. To-day, after the laspe of nearly 200 years, the Bridgewater Canal still serves the needs of trade, and bears witness to the thought and skill of the man who contrived it.

Brindley also planned the Trent and Mersey Canal which connected the Staffordshire Potteries and the salt district of Cheshire, not only with Manchester and Liverpool, but also with the River Trent which flows into the Humber. He was also responsible for the plans of the Stafford and Worcester Canal which connected Wolverhampton

with the Severn at Stourport. These canals were completed and opened to traffic after Brindley's death.

These and other canals opened in the latter half of the eighteenth century were of immense value to industry. The cost of transport of coal, iron and salt was greatly cheapened, and the greater facilities for bringing in raw material from the ports diminished labour and swelled the profits of manufacturers. The hardware trades of Sheffield and Birmingham were galvanised into new life by the cheap materials brought to their factories by the canal barges; and the potters of Staffordshire at last had an ideal form of transport for their fragile wares.

The pottery trade had its share of the prosperity that came with the industrial era, and this was helped by the changed habits of the English people. Tea, introduced by the East India Company, took the place of ale and spirits; and cups and saucers replaced the wooden mugs and dishes of the poor, and the pewter utensils of the middle and upper classes. The substitution of the white china-clay of Devonshire and Cornwall for the local yellow variety also stimulated consumption. Wedgwood's discovery of his "cream" ware won world-wide renown for Staffordshire products.

Before the end of the century the Potteries were producing goods to the value of more than £300,000 a year, and the demand was still growing.

The country's figures of Export and Import

Trade show better than any detailed explanation how vastly the commerce of Britain had expanded. In 1720, Exports were £6,910,899 and Imports £6,090,083. Thirty years later, in 1750, Exports had nearly doubled and stood at £12,699,081, while Imports were £7,772,039. In 1796, Exports were £29,196,198, and Imports £21,024,866.

The vast expansion of trade in the second half of the eighteenth century necessitated a great extension of credit facilities. But the Bank of England's monopoly rendered it impossible to organise a sound and adequate national system of banking. According to the Act of 1709, confirmed and defined by that of 1742, it was unlawful "for any body politic or corporate, whatsoever . . . united . . . in covenants or partnerships, exceeding the number of six persons in . . . England, to borrow, owe, or take up any sum or sums of money, on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof."

The Bank jealously guarded its monopoly, and would allow no infringement of it, even by firms whose business was non-competitive. Nor was it disposed to be helpful. Its notes did not circulate outside London. Though there was an urgent demand for paper money in the North and Midlands, the Directors of the Bank did nothing to ensure a wider circulation for its own issues, by establishing branches in the large towns. At a time when British commerce took its mightiest leap

upwards, they merely sat tight on their money-bags and watched the Niagara rush of new business.

For this foolish neglect of national interests a heavy price was exacted from the Bank in later years.

The clause in the Bank's Charter permitting the establishment of Banks formed by less than six persons, provided a way out of the difficulty created by the obstructive tactics of the Threadneedle Street officials. The demand for credit facilities being urgent, a number of small private firms, many without adequate financial backing, undertook to supply them.

In London the private bank had been the offspring of the goldsmith. In the provinces, people of many different occupations took up the trade—grocers, bakers, drapers, graziers, chemists and tailors. In 1750 only twelve banks were established in the country, outside London. Forty years later the number had risen to 400. A certain proportion of these were founded by prudent business men, who understood the business and were alive to the importance of maintaining an adequate cash reserve against their paper issues. Many of these still survive as branches of one or other of the "Big Five."

Sampson Lloyd, a Birmingham Quaker, founded a bank in that town, which despite the changes which time and mortality bring, still bears the name of its original proprietor. The name of "Lloyd" is world-famous, as is also that of

Barclay, another Quaker, and a descendant of that doughty warrior who in Whittier's phrase:

> Stood, ankle deep in Lutzen's blood,
> With the brave Gustavus.

The story of Barclay's Bank is the oft-told tale of an institution that started as an unpretentious country bank. The firm of Jonathan Backhouse and Company, also a Quaker institution, stood high in popular favour on the north-east coast, and a "Jonathan," as the notes of this house were known, was infinitely preferred to a bank-note of the Bank of England. The Smith who founded the well-known firm of Smith, Payne and Smith, which afterwards became the Union of London and Smith, was a Nottingham draper. "The Old Gloucester Bank," one of the earliest of the provincial banks, was founded by a chandler. Another flourishing banking-house in York was started by a grocer; and the Black Ox Bank of Llandovery by a cattle-drover.

Most, if not all, of these country banks were banks of issue, and those mentioned, like many others, did much to promote the prosperity of the industrial areas during those critical years of expanding trade, when manufacturers urgently needed money to pay wages and buy material, so as to execute orders that were pouring in on them.

But a number of the banks were run by people with inadequate capital, with little knowledge of banking principles and methods. These mushroom concerns were responsible for large issues of

notes, which were found to be merely waste-paper as soon as there was a sudden demand for cash.

But trade continued to prosper, and as with each succeeding year it expanded, the demand for credit grew in proportion, and the country banks issued new notes to satisfy the requirements of their clients. "Why," asked some of these new bankers, "should we keep part of our money lying idle, as a reserve? As we pay interest on all our deposits, we would be out of pocket by doing so."

In those feverish days of high profits and growing wealth, everyone took a roseate view of the future. The old days of poverty and hardship had been banished by the inventions of Watt and Arkwright, and from East and West the peoples of distant lands were clamouring for British wares, and hundreds of factories and workshops would have to be fitted up and crowded with workers before these requirements could be satisfied. Why then think of a day when reserves would be needed?

But when in 1793 France declared war against Britain, the day of reckoning came for those that had made no provision for times of calamity. This news caused a severe drop in the Funds and the shares of the Trading Companies. There were several heavy failures in the City, and the Bank of England was besieged by crowds, anxious either to exchange notes for gold or withdraw deposits. The public alarm spread to the provinces and twenty-six country banks suspended payment.

Now the Bank of England had itself to suffer for its former indifference to the credit requirements of the country districts. The failure of the country banks imposed on the Bank a burden greater than it could bear, and the Governor and Directors turned to the Government for assistance.

The Government was also embarrassed. In addition to the prodigal expenditure entailed at the beginning of a war with France, England had enormous liabilities. In seventeen years the National Debt had been increased to 244 millions, and there were sure prospects that this amount would soon be greatly increased.

The situation was critical, and to William Pitt the position was painfully clear. At whatever sacrifice, the Bank must be saved. Otherwise the fabric of British credit would crumble in ruins.

Never had England embarked on war with gloomier prospects. For four years there had been a succession of bad harvests, the last being one of the worst of the series. The surplus wealth of the country, urgently needed to finance the new industries, had been swallowed up in the Seven Years' War, and the prolonged struggle with the American colonists. Now hostilities were beginning with a country with nearly double England's resources in population. In the previous November there had been 105 bankruptcies, nearly double the number of any previous month. In 1793 the number of failures was 1,956, against 769 in 1791.

To meet the situation Pitt suggested an issue of Exchequer Bills to supplement the supply of specie. A Committee of the House of Commons considered this proposal, and recommended that a maximum of five millions should be so advanced.

As soon as it was known that the Government had come to the rescue of the Bank, public confidence was restored, and there was a rush by depositors to pay in the money they had withdrawn from their bankers. In consequence of this, not more than £2,200,000 of the five millions offered by the Exchequer were applied for, and this sum was repaid within two months.

So ended the first of the crises in which the Bank was involved during the great war with France.

CHAPTER VI

WILLIAM PITT AND THE BANK

ON December 12, 1783, William Pitt the Younger became First Lord of the Treasury and Chancellor of the Exchequer. The news of this appointment was received with derisive laughter in the House of Commons and wherever politicians gathered in club-rooms and assemblies.

Like his father, this young man of twenty-five had been called on to save the country when its fortunes had sunk to a low ebb. Eight years of inglorious war had ended in the loss of our American colonies, at an expenditure of £140,000,000. The obstinacy of the King, the feebleness of his servile Ministers, the dishonesty of officials and war contractors, besmirched the country's prestige and drained it of its wealth.

At the outset Pitt was embarrassed by obstacles on all sides. He could get no men of outstanding talent as colleagues, and had to face alone a hostile House of Commons, the majority of the Members being supporters of North and Fox. The embryo Government was described by hilarious Whigs as a set of children playing at Ministers, and the general opinion was that the old gang would be returned to power in a few days' time.

But the prophets were confounded. Pitt's administration lasted for seventeen years.

He triumphed over his difficulties. A House of Commons was elected that gave him general support, and he began to taste the sweets of power. The country supported him, not so much from confidence in his powers, but because it disliked Fox and dreaded the return of the Coalition. Pitt lacked the personal magnetism of his father. His demeanour was haughty and reserved ; his temper imperious, and he had, like Chatham, an inordinate love of power. He made few personal friends. But as years passed his integrity, courage and patriotism won him legions of devoted admirers.

From his entry into office Pitt's chief concern was finance. His first Budget established his reputation. He stopped the leakage of revenue due to systematic smuggling, by adjusting the tea duties ; simplified the complex tariff system, and arranged for a proper audit of accounts. Instead of carrying forward deficits, like his predecessors, he balanced his Budgets. For the loans required to meet the floating Debt, he put them up to public competition, " thus abolishing," as Lord Rosebery says in *Pitt*, " the corrupt and costly favouritism which had disgraced previous loans. By this single measure he probably did more to purify Parliament than he could have effected by his Reform Bill."

In the following session he was able to show that under the provisions he had made, the revenue was advancing by leaps and bounds, and he promised

that after the floating debt had been dealt with, other proposals of a far-reaching kind would be put before the House.

In 1786 he redeemed this promise and brought forward a plan for the redemption of the National Debt. This was to be accomplished by the following method. A Board of Commissioners was appointed, comprising men of the highest standing, who were to be responsible for the funds entrusted to their care. To this Board a sum of £1,000,000 was to be paid annually. With the million transferred to the Commissioners, they were to buy stock to this amount. This stock was to be held, and the interest accruing from it was to be used in purchasing additional stock. The Commissioners appointed were the Chancellor of the Exchequer, the Speaker of the House of Commons, the Master of the Rolls, the Accountant-General and the Governor and Deputy-Governor of the Bank of England.

The independence of this Board was limited only by the authority of Parliament. The Government had no control over the funds under its care.

This was the essential and most useful part of the scheme. By placing the Fund out of the reach of the Chancellor anxious to balance an awkward Budget, Pitt compelled the taxpayer to shoulder the grievous burden of debt-repayment.

Pitt's study of Adam Smith's *Wealth of Nations* had made it clear to him that finance, apart from its primary purpose of raising revenue, was a means

of effecting political and social reforms. He had tried to effect constitutional reforms, but the vested interests were too strong for him and he had failed. His attempt to abolish the slave trade was equally unsuccessful. But his efforts to restore the country's financial health after the exhaustion of the American war were abundantly justified by results. Economy was introduced into every department of the public service. Though many taxes were removed, the revenue continued to rise, and in two years after Pitt took office there was a surplus of one million.

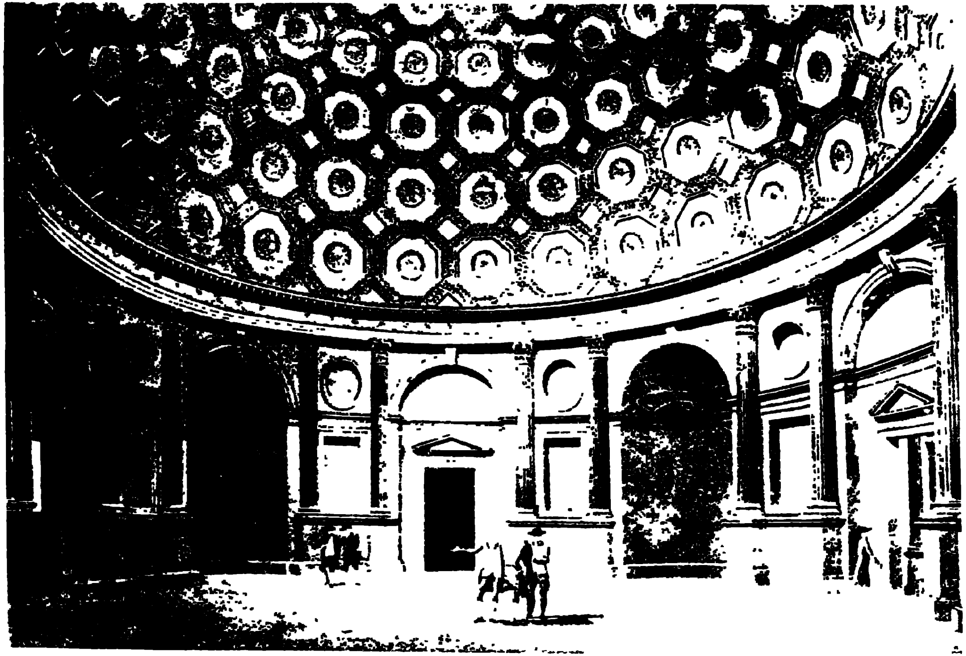
For three years after the outbreak of the French Revolution in 1789, Europe was a seething cauldron of tumult and confusion. In England friends and enemies of the Revolution were engaged in bitter strife. But from these controversies Pitt held aloof. At first he was in sympathy with the aims of the Revolutionary leaders, and as late as 1790 he expressed his sympathy with the constitutional government which was ruling France. When later the excesses of the Revolution made France the centre of a ring of enemies, Pitt held steadily aloof from Continental entanglements, and his chief object was to avoid war. In speech and written word he expressed this aim again and again. In his Budget of 1792, unfolded only a few months before France declared war, he reduced the vote for seamen from 18,000 to 16,000, and also declined to renew the subsidy for the Hessian mercenaries. In the course of his speech he also made the follow-

ing significant declarations: "Unquestionably there never was a time in the history of this country, when from the situation of Europe we might more reasonably expect fifteen years of peace, than at the present moment."

This sanguine forecast was quickly falsified. Pitt listened unmoved to the appeals of the emigrés, nor did the taunts of Burke at "calculators and economists" tempt him to stray from the path of peace. But the action of the French Government in tearing up the Treaty of 1788 forced him into war. From now onward he was committed to uncongenial labours, to entrust the fortunes of England to incapable generals and treacherous allies, and to abandon for ever those plans of administrative reform that lay nearest to his heart.

In the years before the war, Pitt's relations with the Bank of England were excellent. His financial reforms won the approval of the City and strengthened public confidence. But the break with France put the delicate machinery of commerce out of gear. The distress caused by the succession of bad harvests, and the stringency in the money market due to lavish war expenditure, brought on the crisis of 1793 and the consequent failure of many country banks.

From the outset Pitt took energetic steps to bring the war to what he fondly believed would be a swift and victorious conclusion. These measures were very costly and to find the money he had recourse to yearly loans. Most of these loans were



THE BROKERS' EXCHANGE

considerably below par, so that the Government actually received much less than the amounts contracted for. Mr. Newmarch in *On the Loans Raised by Mr. Pitt during the First French War*, gives the annual amounts of the loans contracted, and the sums actually raised, in the following table :

Loans Contracted.				Money actually Received.
1793	6·250	millions.		4·500 millions.
1794	15·676	,,		12·907
1795	55·537	,,		42·090
1796	56·945	,,		42·755
1797	28·275	,,		14·500
1797	3·669	,,	(Imperial Loan)	1·620
1798	39·624	,,		29·000
1799	27·125	,,		15·500
1800	32·185	,,		20·500
1801	49·209	,,		28·000
	314·495			202·372

As 42·515 millions were cancelled by the Sinking Fund, the nett amount of Debt incurred by the Government during this period of ten years was 271·980 millions.

Of this Debt, 35·593 millions were issued at 5 per cent. and 7·305 millions at 4 per cent. The remainder was issued at 3 per cent. The average actual rate per £100 was £5 5*s*. 9*d*. per cent.

The amounts just given do not, however, constitute the whole liability. For subscribers to the loans often received in addition to stock, a certain amount in the form of terminable annuities. These were known as " Long Annuities " and their

capital value computed at 5 per cent. amounted in 1800–1 to £9,323,976.

A small proportion of the proceeds of these loans was spent in subsidies to Britain's Continental allies. In this, Pitt adopted the policy of his father, but with less happy results. Frederick the Great took the elder Pitt's gold and transmuted it into a succession of victories that established the Kingdom of Prussia and made it the most powerful of England's allies. The matchwood monarchies and principalities that crumpled up before Napoleon's attack were all that the younger Pitt had to rely on, and it is generally conceded that the money he advanced them was wasted.

These subsidies were of two kinds—guaranteed loans, and direct gifts. Of the former there were two. In 1795 an Act was passed to legalise the terms of a Convention between Austria and Great Britain, under which Austria agreed to maintain 200,000 troops in the war against France, and that in return Great Britain would guarantee the interest on a loan of £4,600,000.

Charles James Fox, the leader of the Opposition, who had more than once described the Continental allies as corrupt and treacherous, said of this transaction: "the most imprudent measure, all things considered, that ever was carried through" —certainly a very reckless statement, in view of the innumerable follies perpetrated by responsible Governments. But the event in some measure justified Fox's criticism, for after paying the

interest on the loan for two years, Austria defaulted and left the British taxpayer to bear the burden.

Four years later, in 1797, a loan was again made to Austria on the same conditions, but this time the amount was for £1,620,000. On this occasion Austria paid neither principal nor interest.

Then there were the direct subsidies to Continental Powers. These between 1793 and 1805 amounted altogether to £9,024,817. These were divided among German States like Hesse Cassel, Hesse Darmstadt, Baden, Brunswick, Prussia, Bavaria and Hanover. Considerable sums were also advanced to Sardinia, Portugal, Russia and Sweden.

Pitt's policy in the payment of these subsidies has been generally condemned. Fox and other Opposition leaders in the House of Commons repeatedly pointed out that the drain of bullion from which the country suffered in 1796 and '97 was caused by the export of money to the Continental allies. Strangely enough, City merchants and hard-headed financiers believed this to be so, though a slight examination of the figures of war expenditure would have shown them how much they were mistaken. As already pointed out, the debt incurred in the first ten years of the war amounted to 271·980 millions. Of this the amount paid in direct subsidies was £9,024,817, while the guaranteed loans were £6,220,000.

In his brilliant little book on *Pitt*, the late Lord Rosebery points out that the Minister had little

choice in the matter, as England's main operations were conducted by sea, and that war measures in Europe could only be made effective by the aid of auxiliaries. Britain at that time had a population of only ten millions. That of France was then twenty-seven millions. It was impossible, therefore, for Great Britain, with her small army, to carry on a campaign single-handed against her enemy across the Channel.

Mr. Gladstone's criticism of Pitt's Sinking Fund, and the continuous resort to new loans, is more deadly than that of other economists who have discussed Pitt's financial measures. In a speech delivered in the House of Commons on May 8, 1854, Mr. Gladstone said: "The Sinking Fund established by Mr. Pitt was another form of mischief. By means of the Sinking Fund you were continually buying up stock at 3, 4, and 5 per cent. below the rate at which you were simultaneously creating stock in order to find the money to make the purchase. You were buying stock to reduce it, at 60, and creating it again sometimes as high as 68. Thus what the 'heaven-born policy' did was to re-establish the patient by putting a seton into the body; for the process was nothing but a perpetual drain upon the resources of the country."

Mr. Gladstone, in the same speech, condemned Pitt's spendthrift methods of raising money by borrowing, during the first four years of the war. He laid down the proposition that war expenses ought to be met by taxation, and contended that

if Pitt had been less reckless, the enormous addition of 271 millions would not have swollen the National Debt during the first nine years of the war. He thought that Pitt should have imposed the Income Tax in 1793 instead of 1798.

But it is extremely doubtful that the English people would have submitted, in 1793, to the severe and graduated income-tax that was imposed in 1797; it may also be doubted if the yield of the tax at the earlier date would have been in any way satisfactory. Those first years of the war were, as we have seen, years of great commercial distress, while landowners and farmers were also seriously impoverished by a long succession of bad harvests. At this period the industries that were beginning to flourish in the Midlands and North of England might have been seriously crippled by such heavy taxation. In the four years ending 1797 the average revenue was 17½ millions. For the four years ending 1802 the yield was £34,750,000; showing an increase of 92½ per cent. and a yearly average of 32½ millions. Indeed it was a remarkable feature of this prolonged and costly war with France, that as each year of conflict followed another, the financial power of the nation increased, and it could with comparative ease satisfy the rising demands of the tax-gatherer.

It may be presumed that Pitt knew the condition of the country in those early years of the war, and its capacity to bear extra taxation as well, if not better, than any of his critics; and it seems

improbable that Mr. Gladstone himself, financial genius though he was, would have been able to do more to meet the country's liabilities by taxation than William Pitt achieved, if he had then been in power.

However economists may differ in their views on Pitt's war finance, there can be no two opinions about his treatment of the Bank of England in those early years of the war.

By a clause in the first Bank Act of 1694, the Bank was prohibited from lending money to the Government without the express authority of Parliament. This clause was inserted in the Bill for the purpose of protecting the Bank from the demands of unscrupulous Treasury officials. For many years this clause had been, to some extent, evaded, and the Governors of the Bank had been in the habit of advancing the amount of such Treasury Bills of exchange as were made payable at the Bank. These advances were for amounts varying from twenty to thirty thousand pounds. During the American War as much as £150,000 was advanced in this way. This irregular practice caused much anxiety to the Governor and Directors of the Bank, who had doubts as to the legality of these borrowings. After full discussion of the subject they decided to ask the Government for a bill of indemnity for post transactions and for legal authority to continue them within well-defined limits. These limits were to be from £50,000 to £100,000.

Sensing the possibilities of the situation, Pitt acted promptly. He hurried the Bill through Parliament, granting the Bank the desired indemnity, and the power to lend money to the Government without the consent of Parliament; but the limiting clause—which was vital for the Bank's protection—was omitted.

Henceforth the Bank was at Pitt's mercy, and he could borrow for Government, any sums he desired, without Parliamentary sanction.

His action in gaining control of the Bank's resources by trickery was unworthy of a First Minister of the Crown, and can neither be excused nor defended. Equally unscrupulous was the use he made of his new powers. His demands were measured not by the Bank's capacity to lend, but by the Government's needs. No one knew better than he the importance of this mighty engine of credit to the State and the world of commerce; yet he never seemed to reflect that by his continuous borrowing he was endangering the stability of the institution, on whose existence the success of his financial plans depended. He appeared to regard the Bank as a never-failing source of wealth that could be tapped whenever he was in need of funds. No Minister had ever handled so potent a weapon, and no one could have used it more unscrupulously. In his eyes the interests of trade and industry, and the rights of the Bank's shareholders, were but as dust in the balance, compared with the need for finding money to meet Govern-

ment liabilities. Heedless of warnings, he pursued the prodigal's course, until in 1797 the Bank of England was compelled to suspend cash payments, and the 3 per cent. funds were down to 51.

It has been urged, that in some measure the Bank Directors themselves helped to bring on the crisis, by restricting their issues. It is undoubtedly true that the landing of a few French troops on the coast caused a public scare which caused depositors to withdraw their money from the banks. But the principal cause of the trouble was the Government's despotic method of dealing with the Bank of England.

The Bank's difficulties began in 1793 when £2,715,232 was exported to England's allies on the Continent. In the following year more than eight millions were sent abroad and eleven millions in 1793. In addition, four millions were also exported for naval expenses. These heavy withdrawals of specie made the Exchange unfavourable; and to add to the anxiety of the Bank Directors, there were heavy issues of Treasury Bills.

In December, 1794, the Directors sent a grave remonstrance to Pitt. A month later, on January 15, 1795, a Court of Directors of the Bank was held, at which the Government's proposals for a home and a foreign Loan were discussed. As a result of these deliberations it was decided that a limit must be put to the advances on Treasury Bills, and a Resolution was passed: "That the Chancellor of

the Exchequer be requested to make such arrangements in his finances of the present year as not to depend on any further assistance from them, beyond what has already been agreed on."

Pitt received these remonstrances in high good-humour. These City men were good fellows, and the London merchants had supported him when even his own supporters in Parliament had let him down. So he airily promised all these harassed Directors asked and assured them that he would not depend on them for money during the year.

But these promises were soon forgotten. For in May the Governor and Deputy-Governor called upon the Prime Minister, to enter their protest against the action of the Government in calling upon them to pay upwards of two millions in Treasury Bills, and asked that he would be good enough to provide for their discharge.

But of these and other warnings the Premier took no apparent notice. The Government's pressure on the Bank continued. Whenever Pitt wanted money—and this was very often—he cajoled or bullied the Directors into advancing it. If conditions were attached to these loans, he promised to observe them ; but never did so. He had agreed in 1795 to reduce the advances on Treasury Bills to £500,000. But a year later they stood at £1,232,649.

In November, 1796, when English commerce was on the verge of collapse, and the Bank of England was face to face with bankruptcy, Pitt

demanded £2,750,000, on the security of the Land and Malt Taxes. This was granted, on condition that the advances on the Treasury Bills, which had now risen to over 1¼ millions, were repaid.

Pitt accepted the advance on this condition, but instead of keeping his part of the bargain and paying off the Bills, he applied for fresh advances.

The amount of money advanced for the public service by the Bank of England, in four years, still outstanding on February 25, 1797, was £9,964,413. These figures show clearly enough that however wisely the Directors had controlled the affairs of the Bank, it would have been impossible to avert the stoppage of payments that took place in February, 1797. For, in addition to this sum, there was the permanent debt of £11,686,800 owing by the Government to the Bank; so that altogether the Government owed the Bank about 21½ millions, roughly about twice its subscribed capital. When, in addition to this, we take into account the run on the country banks, and the consequent heavy demand for cash from the provinces, the strain of which fell on the Bank of England, together with excessive exportation of coin to the Continent due to subsidies and war expenses, it is easy to understand the difficulties the Bank Directors encountered.

The policy of the Bank prior to the crisis was strongly criticised by writers of the period, who alleged that by restricting issues in the last months of 1796, there was a constant drain on the Bank

reserve, and a shortage of specie, that made the completion of trading transactions difficult. The fact that the Bank's issues in 1796 were abnormally small, and much below public requirements, lend point to this criticism. The timid policy of the Directors may have hastened the crisis, but it could not have prevented it. The Rake's Progress of Pitt's Government had made this impossible.

Though Pitt must have known that the Directors were dealing with a most critical state of affairs, this did not prevent him, a month before the suspension, from demanding a further advance of £1,500,000.

This was too much for the timid hares of Threadneedle Street, and it was not within their power to help their autocratic taskmaster any further. Summoning up the courage of despair, they now took the stand they should have adopted twelve months before, and "instructed the Governor to inform Mr. Pitt that under the present state of the Bank's advances to Government, to agree to his request of making a further advance of £1,500,000 as a loan to Ireland, would threaten ruin to the Bank, and most probably bring the Directors under the necessity of shutting up their doors."

Events now moved rapidly. Day by day the commercial sky grew darker. Public alarm spread. Manufacturers and merchants pressed their debtors, and refused to sell their goods on any terms but cash. There were long lists of failures in the *Gazette;* and forced sales of stocks caused the

Funds to drop continually. On February 20, some important country banks failed, and the news caused a panic. A run on the banks followed. On the 25th the Bank of England suspended payment.

On the same day a Cabinet Council was held in Whitehall, at which the King was present. At this meeting a Resolution was passed: "that it is indispensably necessary for the public service that the Directors of the Bank should forbear issuing any cash in payment until the sense of Parliament can be taken on the subject, and the proper measures adopted thereupon for maintaining the means of circulation, and supporting the public and commercial credit of the Kingdom at this important juncture."

After this meeting the Governor and Deputy-Governor of the Bank were summoned to Downing Street, where the order was given them to suspend cash payments.

On the following day an important notice was displayed in the Hall of the Bank of England, which read:

> "In consequence of an order of His Majesty's Privy Council, notified to the Bank last night, a copy of which is hereunto annexed, the Governor, Deputy-Governor, and Directors of the Bank of England think it is their duty to inform the proprietors of the Bank Stock, as well as the public at large, that the general concerns of the Bank are in the most affluent and flourishing

situation, and such as to preclude every doubt as to the security of its notes. The Directors mean to continue their usual discounts for the accommodation of the commercial interests, paying the amounts in bank-notes; and the dividend warrants will be paid in the same manner."

The publication of this announcement created much public excitement. It would have created alarm, if those who read it had known that it foreshadowed the Restriction Act that was soon to be passed by Parliament. Among the crowds of speculators in the coffee-houses, there were pessimists who predicted that the suspension of cash payments meant the collapse of the Bank, and the loss of England's supremacy as the leading mercantile nation in Europe. But sober City men, with their customary good sense, took brighter views and were reassured by the announcement that the affairs of the Bank "were in the most affluent and flourishing situation."

On the same day that this announcement was published, a meeting of Fund-holders and Merchants was held at the Mansion House to consider the situation created by the suspension of cash payments. As in 1745, those present, and the representatives of banking-houses and financial houses who were afterwards consulted, subscribed to a declaration that they would accept Bank-notes in payment of any moneys due to them. Four thousand City merchants and dealers signed this

Resolution. This demonstration was instrumental in restoring confidence, and Bank-notes quickly regained popularity.

The same evening the King sent a message to the House of Commons, on the unusual demand for specie. Pitt read this message to the House and at the same time moved for a Select Committee of the House, whose duty it would be to examine the affairs of the Bank.

In the debate on the reply of the House to the Royal Message, Charles James Fox delivered an impressive indictment of Pitt's War Finance, in the course of which he said: "The minister has conducted the war upon the hope that we should be able to defeat the French by a contest of finance, and you see now the expedients to which we are driven. Year after year the minister has been amusing us with his ideas of the finances of France—now on the verge, now in the gulf of bankruptcy. But . . . while he was thus amusing us, he has led us to the very same verge, aye, into the very same gulf."

On March 3, the Committee of the House appointed to examine the affairs of the Bank, reported that the Bank had a surplus of assets over liabilities of £3,826,890, exclusive of the permanent debt of £11,686,800 owing by the Government to the Bank.

But this roseate report did not disclose the real position, which was disclosed by R. B. Sheridan in the subsequent debate. The orator pointed

out that in the report no mention had been made of the ten millions which had been borrowed by the Government from the Bank. He showed that the permanent debt could not be regarded as capital, since the Bank could not demand its repayment, and all that could be counted was the £130,000 paid annually to the Bank by the Government for its services.

Sheridan demonstrated the absurdity of the position in which the Government had placed themselves in holding an enquiry into the Bank's affairs by a homely illustration. If a merchant owed in all £13,000 and one man alone owed him in turn £10,000, "would not that merchant," he asked, "think it very extraordinary conduct in that man if he should say, 'Sir, I understand that your affairs are in a ticklish way; let me make an enquiry into them?' The gentleman would say, 'Why do you not pay me the money you owe me, and then I may be able to satisfy every demand, without your interference?'"

After considering the Report on the Bank of England, the Government introduced a Bank Restriction Bill which became law on May 3, 1797.

According to the provisions of this Act, the Bank of England was forbidden to make payments in cash to any creditor or to use it for any payments except to the Army and Navy. It was not allowed to make any advance above £600,000 in cash or notes for the public service. Bank-notes were to be accepted at their par value at all public offices

in payment of taxes. The payment of debts in Bank-notes was to be regarded as equivalent to payment in cash, if offered and accepted as such.

This Act was regarded by all concerned as a temporary measure, that was to remain in force for less than two months.

By virtue of another Act, passed on May 1, the restrictions on the circulation of £1 and £2 Bank-notes were removed and a considerable quantity of these were issued, thus making good the scarcity of currency. For the supply of coin for payments under £1, a large number of Spanish dollars were bought and issued at 5*s*. 6*d*. each. To make these foreign coins legal, a tiny head of George III was stamped on the neck of Ferdinand of Spain—or as an unkind versifier of the period expressed it: "Stamped the head of a fool, on the head of an ass."

CHAPTER VII

UNDER RESTRICTION—THE BULLION REPORT

" IN 1797, Pitt made a first effort towards a more healthy policy," said Mr. Gladstone in the speech of May 8, 1854, from which we have already quoted. He proposed to raise £7,000,000 by assessed taxes, but the plan broke down and he only got £4,000,000. " In the year 1798," said Gladstone, " not daunted by this failure, he proposed to raise £10,000.000 by means of the income tax ; and from that time onwards his career was one series of continued and almost convulsive efforts to extricate the country from the frightful consequences of former laxity."

In these remarks the Victorian statesman does Pitt no more than justice. The bold increase in taxation that marked his policy after the crisis of 1797 taught him that a mere reliance on loans, supplemented by moderate increases in taxation, was suicidal during a long and enormously costly war.

Fortunately for Pitt and his successors, the trade of Great Britain expanded amazingly during these war years. From 1799 to 1802 the revenues were nearly double those of 1797. By 1805 taxation

yielded fifty millions, and in the remaining years of the war it mounted to sixty millions and more.

Though the cost of the war rose enormously during the later years, owing to the outbreak of hostilities with America and the Peninsular campaigns, the yearly increase in the National Debt was lessened by five millions per annum, in comparison with the average of the years 1793–1802. So, far from being crushed by this extra taxation, the trade of the country continued to grow, in spite of Napoleon's efforts to deprive it of its Continental markets.

Everyone was amazed by the buoyancy of English commerce. Hampered by war restrictions, harassed by currency troubles, burdened with oppressive taxation, the staple trades not only flourished, but continued to expand at a rapid rate. Exports and imports mounted to unheard-of figures. All classes were prosperous: The landlord, who exacted higher rents, the farmer, who got war prices for corn and cattle, as well as the manufacturer and his workpeople, who transmuted coal into gold.

This happy state of affairs was ascribed by all classes to "Pitt's Heaven-born finance" and his plans of paper credits. Even the majority of statesmen and politicians, who ought to have known better, believed this system of inflation had rendered this little country of ten million souls invincible, and enabled it to raise, year by year, gigantic loans, and bear an accumulated burden of

heavy taxes. Napoleon was crushed at Waterloo, but he was even more decisively beaten in his attempt to destroy England's national credit.

The real basis of this credit was not Pitt's paper currency, but the vast stream of wealth that flowed in ever-swelling tide from the inventions of Watt, Arkwright, the Derbys and Crompton. As Lecky said in a passage already quoted: "The first and most obvious fact is that the triumphant issue of the great French war was largely, if not mainly, due to the cotton mill and the steam engine." Of this the constantly increasing volume of British trade afforded abundant and convincing truth.

After the crisis of 1797, Pitt's changed attitude to the Bank of England was manifested in several ways. He now evidently realised that the liberality of its Directors in the matter of advances and loans had been prompted by loyalty and patriotism, and that by his previous incessant and unreasonable demands he had come within a hair's breadth of destroying an institution that was the chief buttress of national credit.

Of this new spirit he gave a manifestation when, in 1797, Sir William Pulteney, one of the bitterest enemies of the Bank, proposed in the House of Commons to bring in a Bill for the creation of a National Bank. This motion was rejected, on the advice of the Prime Minister.

In 1798 an Act of Parliament was passed, legalising voluntary contributions to a War Fund.

The arrangements made for launching this Fund showed that our forefathers knew something of the art of publicity. Hustings were erected outside the Royal Exchange in London, and there a great open-air meeting of the citizens was held. This gathering was one of the largest ever held within the precincts of the City, and was representative of every class in the community.

Subscriptions of a guinea and upwards were asked for, and there was an eager and enthusiastic response, and most of those present offered donations, large or small. The Bank of England led off with a contribution of £200,000, and thereafter there was a rush of people anxious to subscribe. Before the lists were closed, more than two millions were received. This sum was augmented by £300,000 received from loyalists in India.

A year or so later the Bank again rendered the Government substantial aid, when on January 9, 1800, the General Meeting of the proprietors resolved that an offer be made to the Government to advance three millions to the Treasury, free of interest, on the security of Exchequer Bills. Whether this offer was made from altruistic motives, may be doubted. The Bank Directors probably desired to secure the hold they had on a valuable monopoly; and they still had influential enemies, though these were no longer banded in a powerful faction as aforetime. But whatever their motive, they had reason to be gratified by the manner of its reception by Parliament; for not

only was it accepted, but the House of Commons passed a Resolution agreeing to prolong the Bank's Charter until August 1, 1833. As the existing Charter still has thirteen years to run, this concession meant an extension of the Bank's privileges for a further term of twenty years.

After encountering high tempests and stormy seas, in the first war years, the Directors of the Bank found fair weather and smooth water, once the crisis of 1797 was passed. They had power, under the Bank Restriction Act, to increase their issues at will, but this power they exercised with commendable prudence.

On May 30, 1797, about a month before the Act was to expire, it was reported to the House of Commons that the foreign exchanges were favourable, and that the Bank was receiving large supplies of gold. But despite this favourable report, the Government, after consultation with the Bank Directors, thought the time inopportune for resuming cash payments and the Act was kept in force until the following session in November.

When the House met again, the subject was again considered and a Committee was appointed to take evidence and report on it. This Committee reported that the total liabilities of the Bank were £17,578,910, and the assets £21,418,460, in addition to the Government debt of £11,686,800. It was also stated that Bank advances to the Government had been reduced to £4,258,140; also that

the stock of coin and bullion was five times as great as it had been on February 25, and much larger than it had been for two years. The Committee also said that the Bank Restriction Act was working well and smoothly. Bankers and merchants experienced no inconvenience through it, for though this law allowed them to withdraw only three-quarters of their deposits, they had drawn no more than one-sixteenth. Foreign exchanges were also favourable, and to all appearances were likely to continue so. After so glowing a report, it is difficult to understand why cash payments were not resumed. The Directors of the Bank were ready and willing to do so. But the Government felt otherwise, and a law was passed prolonging the Act until one month after peace was concluded.

For the twelve years after the passing of the Bank Restriction Act, the Bank of England controlled its issues with a watchful prudence that cannot be too highly commended. Great Britain was passing through the most extended and costly war in its history, and the demands of the Army and Navy were incessant. There was rebellion in Ireland. There were also subsidies for Continental allies. Pitt was now as eager to avoid embarrassing the Bank as he had formerly been to extract money from it. But under prevailing conditions it was impossible to dispense with its help.

In his *History of Prices* (London, 1838) Thomas Tooke proves from some papers laid before Parlia-

ment, that the average of Government deposits at the Bank in 1804 and for several succeeding years, was between eleven and twelve millions; and that during these same years the average of the advances made to the Government by the Bank was slightly under 14½ millions. So that the actual cash advanced to the Government in excess of its deposits during the period 1804–1808 did not amount annually to more than three millions. "This moderation . . . tends—especially when combined with the consideration of the large amount of treasure in possession of the Bank during the greater part of the restriction," says Tooke, "to strengthen the presumption that the Government and the Directors of that period were sincere in the declaration that there constantly existed on the part of both, a reference to the eventual resumption of cash payments."

If we turn to the note issue, it will be seen, as already said, that the Bank's care and vigilance helped to keep the bark of commerce on an even keel through those years of tribulation. In February, 1799, two years after the suspension of cash payments, the Bank's issues amounted to £12,959,800. The liabilities were twenty-one millions, which included eight millions of deposits; while the metallic reserve had risen to £7,563,000, or more than one-third of the liabilities.

At the end of 1799 the issue of notes over £5 was £12,335,020, an amount actually less than that of 1795, when the volume of trade was consider-

ably smaller. For succeeding years the issues are as follows:

1802	£13,917,977.	1806	£12,697,352.
1803	£12,983,477.	1807	£13,221,988.
1804	£12,621,348.	1808	£13,402,160.
1805	£12,844,170.		

The Restriction Act should, according to law, have expired after the Peace of Amiens in 1802. The Bank of England declared its readiness to resume cash payments, but again the politicians blocked the path of commerce, and in response to the wish of Addington, now Chancellor of the Exchequer, the date for normal trading was postponed until March, 1803. But as war soon broke out again, the Restriction Act remained in force indefinitely.

Until the year 1800 the notes of the Bank remained at par, and the Mint price of gold was unchanged at £3 17*s.* 6*d.* per ounce. Exchanges were also favourable, and the patriotic efforts of all classes to maintain a "managed" paper currency were eminently successful. British credit stood high, despite the schemes of Napoleon to shatter it. But in that closing year of the century clouds appeared on the horizon. There was a shortage of corn, due to bad harvests, and some heavy failures in Germany seriously disturbed the London money market, and caused a heavy exportation of specie. The price of bullion rose 7*s.* 6*d.* an ounce, and the exchange in Hamburg fell 14 per cent. below par.

This rise in the Mint price of gold was accounted for by the heavy note issues in 1800. But with a reduction of these in the following years, Bank-notes once more circulated at par. This happy state of affairs continued until in 1807 the struggle with France entered on a more intensive phase, and the commercial credits of both countries were involved. England declared the coast-lines of France and its allies from Danzig to Trieste to be in a state of blockade. Great as this country's power was in ships, this was little more than a paper blockade, which no single power, however great its naval resources, could enforce. Napoleon retaliated by excluding British commerce from the Continent. Decrees issued by Napoleon from Berlin and Milan ordered the seizure of all merchandise leaving Britain, as well as of ships that had touched at any British ports.

These decrees, like the English blockade, could not be enforced. The rise of a vast system of contraband trade, by evasions, carried through in the Baltic ports, and the development of the carrying trade under neutral flags, failed to bring about the ruin of the English manufacturers that Napoleon so ardently desired.

But the Milan and Berlin decrees had ill effects for this country that the Corsican dictator could not have foreseen. For it inaugurated a rage for speculation which, beginning with articles that were declared contraband, like Spanish wools and Indian silks, gradually spread to other

wares that had grown scarce through trade restrictions.

Further developments of Napoleon's plans increased the new madness. Spain and Portugal were overrun by French troops, which set free the colonies of these countries. So that at last the South American ports, with which for a century or more English merchants had desired to trade, were now open to them.

The lure of those vast but little-known regions was not to be resisted. It was a land, they knew, of vast resources, that had made the grandees of Spain fabulously rich. For centuries the Plate ships had borne rich stores of gold and silver from the mines of that distant country. Many of these had fallen into the hands of Elizabethan adventurers, but still the supply never failed, as ship after ship in seemingly endless succession brought richly laden argosies to Europe.

The imagination of the English speculators was fired by the possibilities of this dark continent, just as the visions of Drake, Frobisher and Ralegh had been raised, centuries before. Joint-stock companies of all kinds sprang up as if by magic. Canals, bridges, breweries were planned. Banks and insurance companies were established. Transport services were arranged. And the public was generously invited to subscribe to and share in the profits of these undertakings. The investing public eagerly swallowed the offered bait, and the wily company promoters quickly discovered new

paths to wealth for these innocent gulls. Soon England was afflicted with the mania of the South Sea years, though on this occasion the fever took a less virulent form and was not stimulated by the sensational rise in prices that marked the earlier boom.

The Bank of England, contrary to its best traditions, did nothing to restrain this orgy of speculation. Indeed, according to the speeches of Members of Parliament, it seems to have encouraged it, by granting credit to mushroom firms. The value of the Bank's discounts in 1795 had been under three millions. In 1809 the value of paper discounted had risen to fifteen millions, while in the following year it rose to twenty millions. When it is remembered that the country was still under the Bank Restriction Act, and that in previous years it had been regarded as a patriotic duty to regulate credit with the utmost care and vigilance, the action of the Bank at this time appears to have been most reckless and improvident.

On this point, Professor H. S. Foxwell, in his Preface to the *History of the Bank of England* by Professor Andreades, says: "No doubt it is less easy to defend the actions of the Bank just after 1808. It might have done more than it actually did to check the speculative movement at that time. But events in South America were opening up splendid opportunities, which the English did well to seize even at some risks."

As Professor Foxwell himself shows, the Bank of England's power over the market was seriously diminished by the remarkable growth and speculative trading of the country banks. The number of these ill-controlled institutions had greatly increased during the Restriction period. After the crisis of 1797 there were 270 in the provinces. Eleven years later they numbered 600. Two years later, when the Bullion Committee held its investigation, there were 721 of these banks. There was no check on the trading of these banks and their paper was in every tradesman's till and the wallets of the farmers and cattle-dealers who transacted business at market towns and cattle fairs. Professor Andreades says that, according to the best estimates, the issues of the country banks amounted in 1810 to £30,000,000. Professor Foxwell considers this a moderate estimate. At the same time the issued notes of the Bank of England were £21,000,000, or roughly two-fifths of the total.

On February 1, 1810, Mr. Horner, in the House of Commons, drew the attention of the Government to the unsatisfactory conditions prevailing in the money market, and stated that the price of gold had risen, and that foreign exchanges were against us. He also pointed out that guineas were selling at 26*s*. to 27*s*. He concluded his address by asking for an explanation of these depressing facts.

Here was a clear case for enquiry, and the House decided to make it. A Committee was appointed

to hold it which included among its members Messrs. Huskisson, Baring, Sheridan, Foster and Horner, who had raised the question. This Committee was then and afterwards known as the Bullion Committee.

The Committee's investigations were not concerned with facts, but with causes. On the facts there was general agreement. Gold had risen to £4 10s. *od.* The foreign exchanges had fallen below par. Specie had disappeared from circulation.

To discover the causes of these disturbing developments, the Committee took the evidence of financial experts, Directors of the Bank of England, merchants and independent witnesses.

In their evidence before the Committee, Mr. Whitmore, a former Governor of the Bank of England, and Mr. Pearce, who was then Governor, maintained that the Bank-notes had not depreciated as some economists had argued, but that the price of gold had risen. They did not believe that the increase in the issues had an adverse effect on the exchanges. There was no need, they considered, to regulate the issues by reference to the price of bullion and the foreign exchanges, and were assured that an over-issue was impossible, if the advances took the form of "paper of undoubted solidity arising out of actual commercial transactions and payable at short and fixed periods."

These views were strongly supported by all but one of the merchants who gave evidence. This

one, whose name was not disclosed and who figures in the report as a "Continental Merchant," pointed out that as the balance of trade was heavily in favour of England, the fall in the exchanges could only be accounted for by excessive issues. The following figures, quoted in the Bullion Committee's Report, show the excess of exports of this country over imports, and confirm this witness's contention, that the balance of trade was favourable :

1806	£10,437,000.	1808	£12,481,000.
1807	£5,806,000.	1809	£14,834,000.

Other witnesses urged that the difference between the market price and Mint price of gold, meant that Bank-notes had depreciated in value, and not that gold had risen. Basing their views on Adam Smith's principle that any permanent difference between the market and the Mint price of gold must be due to the condition of the coinage, they contended that as a paper currency was only a representative of a metallic currency, any rise in the price of bullion clearly indicated that the paper currency had depreciated.

The Report of the Bullion Committee, when it appeared in June, 1810, had a very mixed reception. Parliament disapproved of it, and the City was contemptuous. Its findings represented a victory for the doctrinaires, and the views of the bankers and the merchants were set at nought. The principal findings of the Report, briefly

summarised, are as follows: Gold was the measure of value in this country, and commodities are regarded as cheap or dear, according to the amount of gold for which they can be exchanged. "But a given quantity of gold will never be exchanged for a greater or a less quantity of gold of the same standard fineness," except for a slight difference due to special causes. An ounce of standard gold would never be worth more than £3 17*s.* 10½*d.* on the market unless £3 17*s.* 10½*d.* in our currency contained less than an ounce of gold.

Since the suspension of payments, the only standard of value had been the circulating medium issued by the Bank of England and the country banks. It was very desirable that this should correspond to that of gold, which was the real and legal standard.

The depression in the rate of exchange, amounting to 13 per cent. independent of the cost of transport, could only be explained by the depreciation of the currency.

The decrease in the paper money would raise its value, compared with all other commodities, including gold.

Referring to the theory of the Directors of the Bank, that an over-issue was impossible so long as the advances were made in the form of discounts of "paper of undoubted solidity" the Report says: "The fallacy upon which it is founded, lies in not distinguishing between advances of capital to merchants and an additional supply of currency to

the general mass of circulating medium. If the advance of capital only is considered as made to those who are ready to employ it in judicious and productive undertakings, it is evident that there need be no other limit to the total amount of advances than what the means of the lender, and his prudence in the selection of borrowers, may impose. But in the present situation . . . every advance . . . becomes an addition also, to the mass of circulating medium. In the first instance, when the advance is made by notes paid in discount of a bill, it is undoubtedly so much capital, so much power of making purchases, placed in the hands of a merchant who receives the notes; and if these hands are safe, the operation is so far, and in this its first step, useful and productive to the public. As soon as the notes are exchanged by him for some other articles which is capital, they fall into the channel of circulation, as so much circulating medium, and form an addition to the mass of currency. The necessary effect of every such addition to the mass is to diminish the relative value of any given portion of that mass in exchange for commodities. . . . Each successive advance repeats the same process. If the amount of discounts is progressively increasing, the amount of paper which remains out in circulation over and above what is wanted for the occasion of the public will progressively increase also; and the money prices of commodities will progressively rise."

The Report denies that the quantity of notes in circulation can be a test of over-issue or the reverse, as different trade conditions require varying quantities of notes. The only real test is to be found in the state of the foreign exchanges and the price of bullion.

The Committee were of opinion that there was too great a paper currency, of which the high price of bullion and the depressed rates of foreign exchanges were the natural results; that the over-issues were due to the suspension of cash payments and the lack of control on the issues of the Bank of England.

They were convinced that the only real remedy was the resumption of cash payments. This, however, as an operation of great delicacy, should be left to the discretion of the Bank; in any case the Committee believed that an interval of two years would be needed to carry out the matter in a satisfactory way.

Long debates in Parliament followed the publication of the Bullion Report. That in the House of Commons was made notable by two illuminating speeches, one by Mr. Henry Thornton, an advocate of the Bullion Report, the other by Canning, the most brilliant of Pitt's disciples. Thornton's speech was a masterly analysis of the monetary situation. His arguments, reinforced as they were by a wealth of historical illustration, can be read to-day by students of economics with profit and advantage. This remark applies particularly to

the second part of his address; in which he showed that in countries where a permanent currency of paper money had been legalised, the number of those who advocated a return to a metallic currency combined with a lowering of the standard constantly grew. "The very argument of justice," he said, "after a certain time passes over to the side of deterioration. If eight, ten, or even fifteen years have passed since the paper fell, then it may be deemed unfair to restore the ancient value of the circulating medium; for bargains will have been made, and loans supplied, under an expectation of the continuance of the existing depreciation."

The doctrinaires had triumphed in the Committee Room, but the House of Commons regarded them with distrust. Members of the Committee ably defended their Report. Their arguments were reinforced by an impressive speech by Canning, whose vivid eloquence delighted the House but failed to convince it that cash payments should be resumed.

The Bullion Report was rejected, and the Bank of England was at liberty to regulate the note issue at its own discretion. The rejection of the Bullion Report let loose a flood of polemical literature, and started a controversy the reverberations and echoes of which were heard for many years.

The contentions of the framers of the Bullion Report were perfectly sound and were based upon indisputable economic doctrine. But it may be

doubted if at that particular time the recommendations they made could have been acted upon with safety.

England was at war, and the fortunes of its foes were directed by one of the greatest soldiers of all time. All Europe lay at the feet of Napoleon. Time and again the principal Continental States had leagued themselves against him and he had crushed them and turned their armies into scattered bands of fugitives. England alone opposed him successfully, by virtue of her sea power and wealth; and England's power, Napoleon was determined to shatter. His dreams of invasion had vanished, but none knew better than he that this country's real strength lay in her workshops and markets, and her dearest asset her commercial credit. If these were ruined England, and the intrigues of her statesmen, would trouble him no more. So his plans were directed as much against her commerce and manufactures as her armed forces.

While orators in the House of Commons were speaking for or against the recommendations of the Bullion Report, Prussia was occupied by French troops; Bonaparte ruled over Holland; Italy, including the Kingdom of Naples, had become part of the French Empire; Austria had been compelled to sue for peace after Napoleon's victory at Wagram. The whole of northern and central Spain was under the control of the French armies. Only in Portugal were the victorious legions of

Napoleon held in check by a small English army under the command of Sir Arthur Wellesley.

Intoxicated with success, the French dictator was more eager than ever to sweep aside the one obstacle that barred his path to world dominion. So he did everything possible to tighten his control of Continental ports and prevent English ships from using them. Smugglers were rigorously dealt with, and neutral vessels carefully searched for English wares. Napoleon's spies and agents were busy everywhere inspecting bills of lading and examining the stocks of import merchants. The blockade became more effective and English manufacturers found it more difficult to find markets for their goods. Just before the Bullion Report was published, the City of London had petitioned the Government, asking them to withdraw the English army from the Peninsula; and when Perceval, the Prime Minister, learnt that Marshal Massena, with an army of eighty thousand men, was in the field, he threw on Wellesley the responsibility of resolving to remain there.

Napoleon was kept fully informed of these developments and noted with satisfaction that England's paper currency had depreciated and that its stock of specie was running low. To increase this drain of gold, he allowed free import of corn to England, and by this and other measures depressed the value of currency in this country. It was clearly then his aim to ruin England's credit and bring her commerce to a standstill. A crisis

on the London markets just then would have robbed this country of her strength. To Napoleon it would have been worth more than a decisive victory on the battlefield, and his cup of triumph would then be filled to overflowing.

The Bullion Committee, immersed in the consideration of the action and reaction of economic law, apparently gave no thought to the military situation or the policy of the French Emperor. Their only anxiety was to restore the value of Bank paper and bring the exchanges to par. This, under existing conditions, would have presented a problem of extraordinary difficulty. The country banks had been overtrading in a most reckless manner and their paper in circulation was, as already stated, about £30,000,000, and so exceeded that of the Bank of England by several millions. As Thomas Tooke says in his *History of Prices*, in discussing the danger of restoring the value of issues: "I am perfectly convinced that if the attempt alluded to had been made, there would have been a moment of total stoppage of business, something very like a general suspension of all payments except for retail purposes, and of all business excepting retail trade."

If the policy of the Bullion Committee had prevailed, the course of history would have been altered and the English Government might have withdrawn from the war, defeated and humiliated.

Happily England chose to be guided at this time by practical men, of affairs rather than economic

theorists. Ricardo sneered at the Bank of England as "a company of merchants who . . . did not acknowledge the true principles of the currency, and who, in fact, in his opinion, did not know anything about it." There can be little doubt that the evidence of the Bank Directors at the sittings of the Bullion Committee had great influence on Members of the House of Commons and caused them to reject the Report.

This rejection was a vote of confidence in the Bank of England and a tribute to the prudence and efficiency with which, in spite of one serious lapse, they had managed the paper currency since the suspension of cash payments. The Bank Restriction Act conferred on the Bank powers which, under normal conditions, they would never have been granted. In the course of a debate in the House of Lords, Lord Grenville said that the day on which Pitt and he had introduced the Bill was one of the most painful in their political lives. That also was the feeling of the average Member of Parliament. The suspension of cash payments was a necessity; a very disagreeable necessity that caused inconveniences and inflicted injustices on sections of the community. It also involved the commercial classes in serious losses, and made dear the bread of the poor.

But even these accumulated ills were more easily borne than the financial collapse that would ensue if cash payments were resumed. Those in authority, as well as the vast majority of City men, had

absolute faith in the integrity and sense of responsibility of the Directors of the Bank. Of this they had received abundant proof in past years. From now onward until the Restriction Act expired, the Bank had greater powers than it had ever possessed. The failure of eighty-nine country banks of issue in the last two years of the war enabled it to control the supply of Bank-notes. So that the market value of all commodities and property depended entirely on the view the Directors took of the financial situation. The price of the labourer's loaf, the farmer's land and the amount of the squire's income, were all regulated in Threadneedle Street.

Markets were unsteady and prices unsettled. As the price of gold varied so did that of commodities ; and the price of gold in its turn changed as the Bank's issues increased or diminished.

But until the Battle of Waterloo in 1815 put an end to Napoleon's activities, the Bank's issues rarely diminished. In 1813 the war, with one short break, had lasted for twenty years, and was then more costly than ever. As each year passed the National Debt was increased by many millions and the Government was in constant need of money. To meet these demands the Bank issued notes in still greater volume, and the price of gold rose to £4 14*s.* 0*d.* an ounce in 1811.

There were then, as afterwards, loud complaints from creditors, that they were heavy losers by being paid in depreciated paper. To protect

himself from loss, Lord King sent out a circular to his tenants, asking that his rent should be paid "in guineas, in Portugal gold coin, or in Bank-notes of a sum sufficient to purchase at the present market price the weight of standard gold requisite to discharge the rent." Lord King pointed out that the difference in price per £100 between the value of gold and Bank-notes was £17 10*s.* 0*d.*, and he could not understand why he should lose this.

How the tenants received this practical lesson in political economy history does not record. But it had another and important result. A Bill was introduced in the House of Lords by Lord Stanhope, which abolished all differences between payment in coin and paper. In the course of the debate on this Bill, Lord King made a speech in which he read the circular he had issued, and gave his reasons for doing so. The Bill became law on the understanding that it was strictly a temporary measure and would expire on March 25, 1812. But it remained in force as long as the Bank Restriction Act.

Despite the efforts of the Bank of England, the price of gold continued to rise. In 1812 the depreciation per £100 was £20 14*s.* 0*d.* In the following year it was £22 18*s.* 0*d.* In 1814 it reached the peak and was £25 3*s.* 0*d.* In 1815, through the failure of eighty-nine country banks of issue, and the end of the long war, it dropped to £19 14*s.* 0*d.* There was a fall in the following year

to £16 14*s*. 0*d*. After this the difference between gold and paper almost disappeared, for from 1817 to 1818 it was as low as £2 13*s*. 0*d*. In 1819 it rose again to £4 13*s*. 0*d*. for reasons that will be explained. In 1820 it was £2 12*s*. 0*d*. In 1821 cash payments were resumed and the notes of the Bank of England were at par.

After the fall of Napoleon the world began its slow progress towards normal conditions. In England the removal of trade restrictions gave a fillip to commerce. Abundant harvests also helped to smooth out the path to prosperity. Meanwhile the Bank of England was at last relieved from the intolerable strain of arranging new loans and making advances to the Government. The colossal additions to the National Debt had added greatly to its duties and responsibilities, and the number of its employees would probably have astonished, and perhaps even alarmed, Sir John Houblon and his fellow-Directors of King William's day, could they have returned and revisited that massive grey building in Threadneedle Street.

In those months following the war, the Directors were quietly but busily engaged in the necessary preliminary work of bringing the Bank-note back to its par value. Until this was done, exchanges would be depressed and commerce handicapped. So the Directors were quietly acquiring stocks of gold. By November, 1816, sixteen months after the end of hostilities, they announced that they

were now prepared to redeem all notes issued before 1812. Six months later they expressed their readiness to redeem notes issued before January, 1816.

These offers to redeem Bank-notes restored public confidence in the paper currency, and raised the prestige of the Bank of England. Now that the public knew that these older notes could be cashed at any time, they had no desire to part with them. They were a handy form of currency to which people had grown accustomed, and by some were preferred to gold.

Business men were congratulating themselves and each other that at last their troubles over paper money were banished when again the financial horizon was darkened. A heavy demand for gold developed, in consequence of loans raised in England by Continental Governments at high rates of interest. These loans were contracted by foreign Governments for the purpose of substituting metallic coinages for their depreciated paper currencies, and, as in later times, they relied on John Bull's good nature to foot the bill. In doing this he landed himself in further money troubles. The British Government was also in need of assistance, and the Bank advanced it twenty-eight millions. This necessitated further issues—operations that also commended themselves to the country banks. The scarcity of gold became so serious that in February, 1819, Committees were appointed by the House of Lords and House

THE COCK ROOM

of Commons to investigate the affairs of the Bank.

Among the witnesses called at these enquiries were the Governor, Deputy-Governor and several other Directors of the Bank.

These with one accord reversed the opinions of their predecessors, and agreed with the findings of the Bullion Committees of 1804 and 1810, and admitted that the Bank issues affected the price of gold and determined the rate of foreign exchanges. This attitude of its principals did not, however, meet with the approval of the General Court of the Bank Directors, who maintained that issues had no effect on the price of gold. On March 25 this belief was set forth in an official Resolution (it is interesting to note that in 1827 this Resolution was expunged from the Bank's records).

The recommendations of the Committees of both Houses were that the Bank should be instructed, after February 1, 1820, to deliver gold of standard fineness in quantities of not less than 60 ounces at £4 1*s.* 0*d.* per ounce; that after October 1, 1820, the rate should be £3 19*s.* 6*d.* and after May 1, 1821, to the Mint price, £3 17*s.* 10½*d.* This obligation to pay in bullion was to continue for not less than two and not more than three years after May 1, 1821. On this date cash payments should be resumed.

The House of Commons debated these recommendations of the Committees, in the course of which Sir Robert Peel candidly confessed that his

views on currency in the past had been erroneous, and he was now strongly opposed to any lowering of the standard, and that the true standard of value consisted in a definite quantity of metal of an equally definite fineness, and an inscription stating weight and fineness. He asked Members not to be led away by any calculation to mistake the price for the value. He also pointed out that so far from gold having risen in value during the previous fifty years, it had actually fallen, through the greater abundance of the metal.

A remarkable though not unexpected feature of this debate was a bitter attack on the Bank of England by Ricardo, the economist. His implacable enmity to the Bank was well known to other Members, principally on this account and also because he regarded himself as an apostle of economics who alone expounded sound doctrine to a heterodox world. He quoted the evidence of the Governor and Directors at the enquiry, and had no difficulty in showing that this differed absolutely from the Resolution passed at the General Court. He severely condemned the Directors for their imprudent management in the past, and demanded that the House should deprive the Bank of its monopoly.

By the Act of 1819, which embodies the recommendations of the Committees, the Acts stopping cash payments ceased to operate on May 1, 1823. The trade in bullion was declared free, and the prices at which the Bank was required to deliver

gold of standard fineness, in payment of notes, was lowered from £4 1s. 0d. an ounce between February 1 and October 1, 1820, to £3 19s. 6d. between October 1 and May 1, 1821, down to £3 17s. 10½d. between May 1, 1821, and May 1, 1823.

By a separate Act passed in July, 1819, the Bank was once more forbidden to make any advance to the Government without Parliamentary authority.

Though the Restriction Act remained in force until May 1, 1823, the Directors of the Bank were prepared long before this to resume cash payments, and actually did so on May 1, 1821—two years before the date legally fixed.

So at last, after an interval of more than twenty-four years, cash payments were resumed, and the long reign of paper currency was ended. No one had imagined, least of all William Pitt himself, who passed the Bank Restriction Act, that it would be anything but a temporary measure. Afterwards, when it was seen that it would be impossible to carry on the war without it, it was a generally accepted belief that cash payments would be resumed at the end of the war. Yet it was not until six years after the war that gold came again into circulation.

With so long an experience of paper currency, the public became acutely aware of its merits and disadvantages. At first, as trade continued to boom, they hailed it as a heaven-sent device. But they regarded it with less enthusiasm when the

price of guineas rose to *27s.*, and the foreign exchanges became depressed.

On all sides the resumption of cash payments was looked upon as a boon that swept away many injustices and difficulties.

CHAPTER VIII

BANK FRAUDS

It seems inevitable that in its history, which covers nearly 250 years, the Bank of England should often have been victimised by the fraudulent and unscrupulous. This happened often in earlier times, before the safeguards of modern banking practice were introduced, and the detection of crime has been developed into an art. The "running cash" notes of early days could easily be reproduced by the expert forger; and the Bank-notes that followed them provided opportunities for dishonest engravers and printers that were taken full advantage of until at last the Bank used special watermarked paper for printing their notes.

The highwaymen of the seventeenth and eighteenth centuries were as daring and impudent as the modern motor-bandit. They robbed with impunity the rich and great, the poor and needy. The art of roadmaking which the Romans had so successfully practised was unknown in England until the second half of the eighteenth century, and nearly all the main roads were little better than rutted tracks along which coaches and wagons bearing treasure moved slowly and with difficulty.

In the reign of William and Mary highwaymen assembled near these roads in bands of twenty or thirty and robbed all who were deemed worthy of their notice. So serious were the crimes laid to the charge of these outlaws that the King sent out a regiment of Guards, who arrested or killed some hundreds of them, including their leaders. Though highwaymen who were captured received no mercy, there were always others ready and willing to take their places, and lead the lives of gentlemen adventurers; and the records of Newgate offer amazing details of their reckless audacity. Mail coaches which were believed to carry valuables were special objects of attack, and the armed guards who were responsible for the postal packets, which often contained money, considered themselves lucky if they reached their destinations without molestation. Bank-messengers, who carried gold and notes to country towns, were frequently attacked and robbed by these bandits, who found no difficulty in cashing the Bank-notes in neighbouring towns.

To prevent these losses the Bank of England devised a short-dated promissory note, which could only be cashed by the recipient or his accredited agent.

The Directors of the Bank meted out stern justice to those of its servants or agents who were believed to be guilty of theft or other criminal offences. As capital punishment was then the lot of all who stole even trifling sums, hundreds of

men of respectable parentage, who in modern times would have suffered no more than a light penalty, ended their days on the scaffold. So many were these hangings, and so pitiful the circumstances associated with them, that public opinion—not very sensitive in those days—was roused to resentment by the brutality of these punishments.

Of those who suffered in this way, one of the most notable was William Guest, a teller in the Bank of England in the year 1767. Guest was an old and valued servant of the Bank. His diligence, punctuality and sober habits had won him the confidence of his superiors, and he was trusted accordingly.

But in the autumn of 1767 one of the higher officials of the Bank heard that Guest had been selling gold-dust to bullion dealers. The cashier fell under suspicion and an investigation was ordered. It was then discovered that for some considerable time Guest had been filing guineas and selling the dust to dealers.

This, like coining and "clipping," was a capital offence. Seventy years before, when the condition of the coinage had been an urgent problem of State, England had been infested with malefactors of this type. At one time in 1695, no fewer than 105 clippers and coiners were in Newgate awaiting trial. But with the restoration of the coinage, crimes of this kind were not so common, and had now become comparatively rare.

On October 14, 1767, Guest was brought to trial

at the Old Bailey and charged with filing guineas and converting the proceeds to his own use. The proceedings at the trial were little more than a formality. The evidence of the prisoner's guilt was overwhelming, and the Judge wasted no time in deciding his fate. As filing coin of the Realm was legally high treason, the Judge directed that Guest was to be drawn to Tyburn on a sledge and there hanged.

The brutal punishment of drawing a prisoner on a piece of wood through the mud and filth of the unswept streets and bumping him over the cobblestones, was only one of the methods of dealing with criminals which show us that in past times the law officers of the Crown were little less savage and callous than the offenders they dealt with.

How Guest endured this ordeal we do not know. But from a contemporary account we learn that at Tyburn his demeanour was exemplary. "After the three others were tied up," the reporter says, "Guest got into the cart; he was not tied up immediately, but was indulged to pray upon his knees, attended by the Ordinary and another clergyman of the Church of England."

When his turn came to mount the scaffold, Guest appears to have shown remarkable courage and manly dignity. He mounted the steps with firm tread and faced the hangman and the sensation-loving multitude without a tremor. "His solemn deportment," we are told, "drew tears from the greatest part of the spectators."

There is still in existence an eighteenth-century print which depicts Guest in the sledge, on his way to Tyburn. It also shows how the majesty of the Law was vindicated!

Equally courageous was another malefactor, Fauntleroy, the banker, when some fifty years later he was compelled to face the same ordeal. The story of Henry Fauntleroy is one of the most remarkable in criminal records.

In the year 1800 this boy, who was the son of William Fauntleroy, became a clerk in the bank of Messrs. Sibbald, Stracey and Company, known as the "Berners Street Bank." Of this institution, Fauntleroy's father was the managing partner. Henry at this time was sixteen years of age and had just left school. Through his father's influence the young clerk was given every opportunity of learning the details of every department of the business, and he proved himself an apt pupil. He had a remarkable genius for figures, a retentive memory, and was industrious and painstaking. Within two or three years he had become a skilled accountant, and his father, who took pride in his progress, made him conversant with those intricacies and technicalities of the business that are as a sealed book to many who have a sound knowledge of general banking practice.

But Henry owed his advancement more to his own mental alertness and strength of purpose than to any outside influence. The partners were delighted with his progress, and so impressed were

they with his bearing and conduct that they took every opportunity of pushing him forward and putting still heavier responsibilities on his young shoulders. He was zealous in religious observances, eschewed the light frivolities that were a marked feature of the Regency period, and in every way framed his conduct on those of the pious young men of the Sunday-school books.

When he had been seven years at the Berners Street Bank, Henry's father died. This event placed the other partners in a difficult position. For many years they had taken very little part in the management of the business and had left everything to William Fauntleroy, Henry's father; and for some time they could think of no one fitted to take his place. Then it occurred to them that the son was quite capable of undertaking the management. He was young for the position, certainly, but he was prudent and of sober judgment, and he knew the work of every department better than any other man in the bank. After some little hesitation and much discussion, they decided to appoint the son in his father's stead, and so at the age of twenty-three Henry became managing partner of one of the most important City banking houses.

Merchants and brokers shook their heads gravely when they heard of the appointment, and clients of the bank expressed astonishment that a position of such responsibility should have been given to a beardless boy. But others, who had known the

father and watched the son's progress, were more optimistic and were loud in their praises of Henry, whom they regarded as a chip of the old block.

The appointment was a "nine days' wonder" in banking circles; and there was much wonder and conjecture as to the outcome of this rather risky experiment.

But the partners of the bank were in no way disturbed by this outdoor clamour. They knew young Fauntleroy better than the critics, and were prepared to back their judgment. They were convinced of his honesty and had confidence in his knowledge of the banking business; and regarded him as a worthy successor of his father, especially as he was believed to be deeply imbued with religious principles. They also thought that youth, instead of being a drawback, was an advantage, and that Henry, with his superabundant energy and buoyancy, would infuse new vitality into a business that was in danger of becoming moribund.

But times were bad when Henry Fauntleroy took up his new position. Europe was under the heel of Napoleon, British trade was hampered by war restrictions, and for the past ten years cash payments had been suspended. England's paper currency had depreciated in value; and the foreign exchanges were depressed. Trade conditions were abnormal. Taxpayers were groaning under heavier burdens than they had ever borne before; and every year new Government loans were issued, so that Funds sank lower and lower.

The outlook was also depressing. There seemed to be no prospect of the ending of the French war, which had already lasted for fourteen years.

Nor did the prospects seem more rosy when Henry Fauntleroy looked into the affairs of the Berners Street Bank. He noted with dismay that its business was slowly crumbling away, and that some of its more influential clients were engaged in hazardous building speculations, which, however profitable they might appear on paper, were risks that the bank should not have incurred in times when the currency was steadily depreciating. These commitments were legacies of his father's management which he could neither shelve nor get rid of. He did his best to reduce these liabilities, but without much success.

Seven years later, in 1814, what he had long expected happened. Several of the bank's speculating clients crashed, owing the bank large sums of money. These misfortunes seriously crippled the Berners Street establishment, and Henry Fauntleroy found it extremely difficult to raise cash to meet current obligations.

After a time rumours spread that the bank was in difficulties. These stories seriously injured the bank's credit. Several wealthy depositors withdrew their accounts. A much more serious blow was the refusal of the Bank of England to take the Berners Street acceptances. These rebuffs sorely added to Fauntleroy's perplexities.

The Berners Street Bank was insolvent. Faunt-

leroy was well aware of this, and he alone possessed this knowledge. Some former clients and other bankers guessed it, but he alone knew the full facts. Those who knew nothing of the real position were Fauntleroy's own partners. From the day he had become managing partner seven years before, he had never afforded them a glimpse of the truth. Instead of showing them how critical the bank's affairs were, he had prepared fraudulent balance-sheets which showed abundant assets, diminishing liabilities, and generous profits. In blind faith the partners, who apparently never looked into matters for themselves, had drawn large sums as profits, though these had never been earned. If Fauntleroy had now done his plain duty and informed his partners that the bank was insolvent, he would certainly have lost his position and salary, and might possibly have had to suffer for falsifying the bank's accounts; but he would have been saved from the felon's fate that awaited him.

But Fauntleroy was no longer the serious-minded Nonconformist of his boyhood's days. Bible Societies and Little Bethels no longer claimed his allegiance. He was a man of the fashionable world and had become a dandy of the school of Beau Brummel. He aped the vices and extravagances of the fashionable roues of the day. He haunted the gaming-houses in the West End, and forgot the troubles of the day at Berners Street in dissipation at night. His new mode of living was

expensive—so expensive that his salary, large as it was, was quite insufficient to meet the demands on his purse. To divert his mind from his business troubles, he outvied his fellow-Corinthians in excesses and follies. Money became with him a problem of ever-increasing difficulty, both on his own account and that of the bank.

To satisfy his needs he embarked on a new form of dishonesty, and appropriated to his own use the funds of clients whose dividends on Government securities had been paid direct into the bank. In order to carry this out more effectively, he forged powers of attorney, transferring stock out of the names of clients into that of the bank's stock-brokers. Then he instructed the stockbrokers to sell the stock, and the proceeds were paid into the bank.

Fauntleroy must have known that sooner or later the frauds he was practising would be discovered, but in the meantime he took scrupulous care to keep any knowledge of them from his victims. Dividends, when due on this stolen stock, were always credited to the accounts of the clients who owned it. When a client died, Fauntleroy always bought stock to the amount that had been plundered, so that the executor of the estate would find everything in order. To make these purchases he was compelled to forge more powers of attorney to enable him to sell the stock of other clients.

By these feats of financial jugglery he was able,

for a period of ten years, to throw dust in everyone's eyes, and maintain his position as a man of probity and honour. In this period he had appropriated stock belonging to the bank's clients amounting to £400,000. On this he had to place £16,000 a year to the credit of the owners' accounts, the amount of dividend the stock earned.

Had the bank been prospering, it might not have been a formidable task to raise the amount to cover these dividends, and even replace some of the stolen stock. But the Berners Street establishment was all this time sinking deeper and deeper into the mire of bankruptcy, and had only been kept going by these wholesale raids on its clients' resources.

At last the Fates which for long had been dogging his footsteps overtook him. A client died whose fortune was invested in Government stocks. Fauntleroy and two influential City men were appointed executors of the estate. As Fauntleroy had embezzled practically the whole of this stock, he proposed to his co-executors that the dividends on the estate should be paid into an account at the Berners Street Bank. But the other executors would not agree to this. They were busy men and preferred that the estate should be administered by the Court of Chancery. If he had been able, he would have followed his earlier practice of buying Government stock to replace the sums embezzled. But he was now without resources. He made frantic efforts to raise the money, and in

order to gain time, made various excuses to the other executors for the delay in settling the business.

His colleagues grew suspicious. Without advising him of the course they were taking, they visited the Bank of England, where they discovered that most of the deceased client's stock had been sold by Fauntleroy. Further enquiry convinced them that the power of attorney under which the stock had been sold was a forgery.

The drama now swiftly drew to its close. A warrant for the arrest of Fauntleroy for forgery was issued on September 9, 1824. The next day a police-officer visited Fauntleroy at the bank and arrested him, after showing him the warrant in which he was charged with "having feloniously forged and uttered as true, a certain instrument with intent to defraud the Governor and Company of the Bank of England."

So secretly was the arrest made that it was not until Monday, September 13, that the Berners Street Bank closed its doors, and the other partners issued a notice that they had decided to suspend payment in consequence of the extraordinary behaviour of their partner, Mr. Henry Fauntleroy.

There is little to admire in this rascally bank manager. But this at least may be said in his favour—that he freely confessed his crime, and was at pains to assure the world that his partners knew nothing of his guilty practices. In this he differed from so many of the financial swindlers

who pose as unspotted angels of purity, and are careful to assure judges and juries that it is "the other fellow" who deserves punishment.

Not so admirable is a note appended to a list of securities Fauntleroy had stolen. In this he says: "In order to keep up the credit of our House, I have forged powers of attorney and have sold out all the above sums (amounting to £170,000), without the knowledge of any of my partners. I have given the different accounts credit for the dividends as they became due. The Bank of England began first to refuse our acceptances, and thereby began to destroy our credit. They shall smart for it."

Fauntleroy's trial opened at the Old Bailey on Saturday, October 30, 1824. Three days later he was found guilty and condemned to death. On November 30, he was executed outside Newgate Prison, in the presence of a great mob.

Fifty years later the Bank of England was again victimised—this time by a gang of American forgers. The leader of this gang, George Bidwell, came, according to his own account in his book, *Forging His Own Chains*, from good New England stock. His father seems to have been a hard-working but trustful and simple man, who allowed himself to be over-reached and swindled by less scrupulous people. Young Bidwell's early experiences in business were also so unfortunate that he came to the conclusion that it was impossible to earn money by honest means. From then on he

drifted into crime, until at last he became the organiser and leader of a gang of forgers.

His associates in this audacious enterprise were among the aristocrats of crime. Austin Bidwell, his brother, was an expert in the crook game and thoroughly acquainted with the ways that are dark and tricks that are vain of the American underworld. Engles and McDonald were forgers of uncanny skill who had long been thorns in the sides of New York bankers and merchants. Engles, it was said, was regarded with unaffected admiration by stockbrokers, because of his marvellous ability in forging cheques and bills, and he was known to newspapermen as the " Terror of Wall Street." But he was an artist, who modestly hid in the background and left to others the hazardous task of turning his masterpieces into cash. Like the Duke of Plaza Toro, who led his regiments from behind, " he found it less exciting." McDonald, as became a young man of twenty-six, was more enterprising, and had already served two years' imprisonment for robbing a New York jeweller by means of a forged cheque.

From the detailed account of their trip to Europe, it appears that Bidwell had no settled plans of action when he and his gang first arrived. Like the wary general that he was, he determined to spy out the land before arranging a definite plan of campaign.

He found conditions in London very different to those of New York. In America the authorities

were much more accommodating than their English confreres. The New York police looked with tolerant eye on the bank-robber and thug, so long as he shared the proceeds with them. But the London police were less imaginative, and lacked this larger conception of the blessings of freedom.

Bidwell and his associates saw that they must walk delicately—and they did so. They studied the English commercial system, paying particular attention to the banks. But for a long time Bidwell saw no openings for his craft and energy. Then a trivial incident gave him the germ of an idea.

His brother Austin, who was something of a dandy, was one day strolling along Savile Row when he saw some cloth in a tailor's window that caught his fancy. He entered the shop, ordered a suit of the material, and instructed Mr. Green, the proprietor, to deliver it at his brother's lodgings. His own name he gave as " F. A. Warren."

Some weeks later Austin Bidwell received an invitation to visit some relations of McDonald in Ireland. He had £2,000 in Bank-notes, which he neither wished to leave in his lodgings nor take with him on his journey. As he had no English banking-account, he asked his tailor to lock this money in his safe for him. But Mr. Green did not care to incur the responsibility of keeping so large a sum of money in his possession and suggested that " Mr. Warren " should go round with him to the Western Branch of the Bank of England, where

the money could be left. To this Austin agreed. At Burlington Gardens he was introduced to Mr. Francis, the assistant manager, and opened an account in the name of "F. A. Warren."

On his return from Ireland, Austin Bidwell withdrew nearly all the money he had deposited at the Burlington Gardens Branch of the Bank of England, and left only a few pounds to keep the account alive. But now the gang's plans were changed. Bidwell had acquired some bills drawn on South American banks. Armed with these and some forged documents, the Americans sailed in June, 1872, for Rio de Janeiro. Here, however, their plans went awry. Their transactions drew on them the attentions of the police, and they barely escaped imprisonment. Eventually they sailed for England, having "cleaned up" £8,000, a much smaller sum than they had expected; and they returned to England chastened, but hopeful of better fortune in the Old Country.

For a time after their return George Bidwell improved the shining hour by collecting money from various Continental banks on forged letters of credit. Amongst other moneys he received in the course of these transactions was a genuine Bill of Exchange on Baring's Bank in London. This Bill he posted to McDonald, who at once went to Baring's to present the Bill for payment.

When McDonald described to Bidwell how he presented the Bill and what happened then, Bidwell's eyes lighted with the joy of discovery.

At last he had found a joint in the armour with which English bankers protect their interests. If he could penetrate that joint—and he felt sure that he could do so with the help of expert forgeries—then robbing the Bank of England would be as simple as shelling peas.

This is what had happened. When McDonald presented the Bill at Baring's, the cashier, without sending the Bill to the acceptor to be initialled, stamped it payable at the London and Westminster Bank, and endorsed it. McDonald then presented the Bill at the London and Westminster Bank, where he at once received the money. Now Bidwell knew by experience that in America, as well as on the Continent, bills were always verified by the acceptor before payment. The question Bidwell now asked himself was how could he best take advantage of this loose way of handling Bills of Exchange. He consulted his associates, and they all gave the problem their earnest attention.

Bidwell recalled the fact that his brother had opened an account at the Burlington Gardens Branch of the Bank of England. But then, would it not be dangerous to try and pass forged Bills of Exchange through the world's greatest financial institution? Surely here greater precautions would be taken.

Bidwell was a bold and enterprising gambler, but from the outset he acted with remarkable care and cunning. His first step in the campaign was to send his brother Austin to the Continental Bank,

where he opened an account in the name of "C. J. Horton," and deposited the sum of £1,300 in Bank-notes. The account of "F. A. Warren" at the Bank of England, which had lain dormant for some months, was also revived, by the deposit of further sums of money.

Next Bidwell proceeded to create the illusion of business by making both accounts active, and passing cheques drawn on the Bank of England into the Horton account at the Continental Bank. The purpose of this was obviously to impress the bank managers, and create in their minds the idea that the Americans trading under the names of Horton and Warren were men of substance who were carrying through important business deals. To strengthen this confidence in them, a number of genuine Bills of Exchange were bought, and then were taken by Austin Bidwell to the Bank of England to be discounted.

Everything was now ready for the momentous campaign. Austin was anxious to carry it through in one great coup, but his brother was unwilling to risk this.

In this affair two things are specially noticeable. One was George Bidwell's anxiety to screen his younger brother from danger. The other—the meticulous care he took in preparing the ground for this risky enterprise. When in Germany, he had bought every kind of ink on sale at the stationers. He also bought a comprehensive variety of blank Bills of Exchange, printed in

French, German, Dutch, Italian, Russian, Turkish and Arabic. He also continued to send payments to his broker in Amsterdam, Mr. Pinto, in return for which he asked him to send bills on London. With these and others he already possessed, he had for copying a large number of endorsements, stamps and signatures of leading firms at home and abroad. Books of blank drafts or Bills of Exchange were bought at Waterlow's. The facsimiles of the different banks and private firms' endorsement-stamps were more difficult to obtain. It was a dangerous task to commission the making of a wood engraving identical with the stamp of a public institution, and was likely to arouse suspicion as to the purpose for which it was required. George Bidwell took this responsibility on his own shoulders. He made a list of wood-engravers in London; spent some days in calling on them. Amongst these he selected five with whom he placed orders. None of them seem to have suspected him in any way, for the blocks were made and delivered without question.

Two other precautions Bidwell took for the protection of his gang and himself. He cabled for a man he knew in New York, named Noyes, and invited him to come over to London. Noyes accepted the invitation and was told by George Bidwell, who met him when he arrived, that he was to act as clerk to a Mr. Horton; but he was told nothing of the proposed raid on the Bank, nor was he given any information about the gang nor

the addresses where they lodged. He was told, however, that all he had to do was to carry out "Horton's" instructions; that for this he would be well paid, and that there would be a bonus on the scheme which was in hand. Bidwell's real purpose in bringing Noyes over from America was to employ him as a collector of money from the Bank.

To establish Noyes' *bona fides* and protect him from possible disaster, a neat little drama was stage-managed by George Bidwell. An advertisement for a clerk who was prepared to deposit a small cash guarantee, and signed "Horton," appeared in the *Daily Telegraph*. Noyes, who was staying at Durrant's Hotel, was instructed by Bidwell to show the advertisement to the hotel-manager. He did so, and also answered the advertisement. Afterwards followed an interview with "Horton" in the presence of the manager, when Noyes was formally engaged. As if this were not enough, a formal agreement between "Horton" and Noyes was also drawn up by a solicitor.

In view of these elaborate precautions, it is impossible to regard Noyes as the innocent victim of a gang of unscrupulous criminals.

As his brother Austin was the only member of the gang known at the Bank of England and the Continental Bank, George Bidwell instructed Austin to go at once to Paris, and from there to the United States, so as to be out of danger.

He then took the first decisive step in carrying out his long-concerted scheme. From Birmingham, where he was staying, he sent £4,250 in forged bills, together with a covering letter in F. A. Warren's name, to Mr. Francis at the Burlington Gardens Branch of the Bank of England. After an anxious wait of two days, he called at the Birmingham Post Office and received a letter from the Western Branch of the Bank of England, acknowledging receipt of the bills for discount, with an intimation that the proceeds of same had been passed "to your credit as requested." The letter ends on a personal note—"Hoping you are recovering from the effects of the fall from your horse, I remain, etc."

On receipt of this letter Bidwell acted promptly. The money in the Bank of England was at once transferred to Horton's account at the Continental Bank; and after this, United States' bearer-bonds were bought and paid for from the funds standing to Horton's credit. Everything had run smoothly and the fraud had succeeded to admiration. There was nothing more to do but repeat the experiment until a sufficient sum was accumulated to satisfy the swindlers. George Bidwell could be trusted to see to this!

For the next few weeks the American experts were kept busy, forging bogus bills which the Bank of England officials accepted and placed to their credit without a murmur of protest.

The following table gives the details of these

activities, and shows the number of bills and the dates they were presented at the Bank:

		£	s.	d.
January 21, 1873.	Three bills, totalling ..	4,250	0	0
25 "	Eight bills, totalling ..	9,350	0	0
February 3	Eleven bills, totalling ..	11,072	18	6
10	Two bills, totalling ..	4,642	19	4
13	Fourteen bills, totalling	14,696	16	2
21	Sixteen bills, totalling ..	14,686	15	4
25	Sixteen bills, totalling ..	19,253	10	3
27	Twenty-four bills, totalling	26,265	0	0

On February 27, after the last of these bills had been passed, Bidwell and his associates held a meeting to consider the position and decide on further action. They smiled complacently as they congratulated each other on the success of the venture. Forged bills had brought them in £102,217, more than £100,000 of which had already been withdrawn from the Bank of England. It was the greatest deal they had ever made. There was now, however, an important point to decide. Should they remain satisfied with their gains, or should they try to negotiate another batch of bills? After some discussion it was agreed to try one more flutter; after this they would seek pastures new.

On the following day the final parcel of bills was sent to the Bank of England. Promptly the next day came a letter from the Bank stating that the proceeds had been placed to the credit of Warren's account. In accordance with Bidwell's usual procedure, a cheque was then drawn on the Bank, made out to Horton for most of the money stand-

ing to Warren's credit. For some reason George Bidwell was unaccountably nervous, and he hesitated to cash the cheque until he was satisfied that no suspicion had been aroused. In order to test the position, a commissionaire was sent to the Continental Bank with a cheque signed by Horton. George Bidwell, who was unknown at the Continental Bank, was in the Bank when the commissionaire arrived, and saw with relief that the cheque was cashed without question. He then handed the big cheque of Warren's to Noyes, instructed him to cash it, and bring the money to him at an hotel, close at hand.

When Noyes entered the Bank and presented his cheque at the counter, the cashier gave a signal to two men in uniform, who quickly came forward and arrested the messenger.

Bidwell's great scheme of robbery had suddenly collapsed like a deflated balloon. How this had happened he did not learn until after his arrest.

As the prisoners and the world learnt later, the discovery of the fraud was accidental. The clerk who entered up the forged bills at the Bank of England, noticed that on two small bills the date of acceptance was missing. Regarding this as a mere clerical error, he did not think it necessary to notify his superiors of the matter. He quietly went on with his work and then sent the bills to the acceptor, Mr. B. W. Blydenstein, requesting him to fill in the missing dates. The supposed acceptor at once declared the bills to be forgeries.

The police were at once notified, just after the commissionaire had cashed his small cheque at the Continental Bank.

Strangely enough, Bidwell, who saw Noyes arrested, was quite unperturbed by the turn of events. He and his associates had got £100,000 of the loot safely put away; and he felt that the precautions he had taken kept him and his friends safely from the Law's clutches. Austin was the only member who had come into personal contact with the officials of the Banks, and he was now safe in America. Noyes, who had cashed the cheques, could prove that he was merely a tool of the others, and would soon be liberated. But the problem set for the police to solve was easier than Bidwell anticipated.

Bidwell went to McDonald's lodgings, where the forgeries had been executed, and searched every drawer and cupboard for incriminating evidence. Everything and anything that might provide a possible clue he destroyed. Yet, curious to relate, he and McDonald gratuitously presented the detectives with a piece of evidence that brought the pair within reach of their clutches. While Bidwell was searching, McDonald was writing letters. As he was finishing his task, McDonald asked Bidwell for a sheet of blotting-paper. Bidwell passed this to him, apparently without examining it.

After Bidwell's departure, McDonald, who probably felt that his only chance of safety lay in flight, collected all his possessions and bolted.

But he left the tell-tale sheet of blotting-paper behind him in the fireplace.

McDonald's hurried flight was a tactical blunder. It aroused his landlady's suspicions that something was not quite straight about him. Later these suspicions were confirmed when she read an account of the Bank frauds by American criminals. She began to put two and two together. The lodger who left hurriedly on the day the account of the frauds appeared in the paper was an American. He spent much of his time in writing, and was often visited by other friends who were also Americans. Could he be one of the criminal gang? She communicated with the police, who promptly answered her call and made a thorough and systematic inspection of the lodger's rooms.

One of their first "finds" was a commercial directory from which excisions had been made. When compared with other copies of the Directory, it was found that lists of names of officials of different banking-houses had been taken from the mutilated copy. But the blotting-paper already referred to convinced the police officers that they were now hot on the trail. Held up to a mirror it showed phrases like "London and Westminster Bank," "accepted payable at" and signatures, that showed unmistakably that the writers were concerned in the forgeries.

A warrant was issued for McDonald's arrest, but as further information came to hand, the Bidwells also became the prey of the hunters.

In their intervals of leisure all the members of the gang had cultivated the society of ladies, and from these the detectives learnt much that was unedifying but instructive; and the net around the fugitives became closer and closer. Austin, who had lingered on the Continent, instead of carrying out his brother's instructions, was the first to be arrested. His brother George, after many escapes, was taken in Edinburgh.

On August 18, 1873, the two Bidwells with McDonald and Noyes, were tried at the Old Bailey. The case lasted eight days, but the jury were only a quarter of an hour in deciding that the prisoners were guilty. Each of them was sentenced to penal servitude for life.

CHAPTER IX

THE SOUTH AMERICAN BOOM—TRADE CRISES OF 1825 AND 1847—BANK ACTS OF 1826, 1833 AND 1844—THE GURNEY CRISIS

WITH the restoration of metallic currency and favourable exchanges, the British trader in 1821 had now more favourable opportunities within his grasp than he had known for twenty-five years. New markets were open for his wares, and invention had placed him beyond the reach of competition.

The British people were now introduced to a coin that was new to them. Instead of the guineas which they and their forefathers had earned and hoarded or spent, they received sovereigns in exchange for their notes. Though new to that generation, the sovereign was not a new coin. It has first been issued in 1489, but only for a short period. It had been re-introduced in 1542, and again had quickly gone out of use. Two hundred and seventy years elapsed before it was again coined, when in 1817 it was used for the redemption of Bank paper. In 1821 it became a common medium of exchange.

During the next three years, abundant harvests brought about a general revival of trade throughout the country. Public confidence in the Bank's stability, which had been rudely shaken by the events of recent years, was greatly strengthened by the knowledge that its bullion reserve had risen to £14,200,000. The country banks which had survived the financial tornadoes that had swept the provinces also showed signs of prosperity. Through their friends in Parliament, the provincial banks asked the Government for permission to continue and increase their issues. To this the Government rashly agreed.

As the trade of the country was now rapidly expanding and there were signs of prosperity on all sides, Ministers thought this a favourable opportunity for reducing the interest charges on the National Debt. A Conversion plan was prepared by the Treasury, and fundholders were invited to accept reductions of from 5 to 4 per cent. on one class of stocks, and from 4 to 3½ per cent. on the rest. To assist them in carrying through this operation, the Bank granted a heavy loan to the Government for the purpose of paying off dissenting fundholders.

There is an old saying in France that "John Bull will stand anything except 4 per cent." The actions of the non-assenting fundholders went far to prove the truth of this sneer at English cupidity. Finding no gilt-edged investment in this country that showed a higher rate of interest

than that offered by the British Government, many investors were attracted by the loans of the South American republics, the independence of which had been recently recognised. Mexico, Colombia, Peru, Brazil, Guatemala, as well as European states and cities, all held out tempting baits to the English investor. The greedy speculators swallowed the dainty morsels as well as the hook. As much as 150 millions were poured into Mexico and South America; and these half-breed revolutionaries grinned with delight, and held out their hats for more.

History has shown that there is nothing so contagious as speculative fever. Share gamblers follow each other with the blind docility of a flock of sheep. Brown tells Jones about his golden dreams of fortune; and Jones, who begins by warning his friend, ends by following his example. People afflicted with this mania seem to lose all sense of values, and throw prudence to the winds. This was so during the South Sea Bubble, and moneyed people in 1825 were no less gullible. Shady company promoters, always ready to exchange worthless paper for solid gold, induced their victims to take shares in companies formed for purposes that would not have deceived anyone with a modicum of common-sense. One of these sharks asked for funds to drain the Red Sea, in order to recover the treasure abandoned by the Egyptians after the crossing of the Israelites! Audacious swindlers actually succeeded in

gaining subscribers for other schemes equally foolish. History was repeating itself, and the general public were as severely infected with the gambling fever as their forefathers had been during the South Sea boom.

In the House of Lords, Lord Lauderdale, in the course of a debate on the prevalent state of affairs, stated that £200,000,000 had been subscribed to companies in 1825. Huge as this figure is, the speaker certainly understated it. For the number of companies formed in 1824–25 numbered 624, with a nominal capital of £372,173,100.

As in former eras of speculative mania, the shares of many of the new Companies first rose sky-high, and then, after a short pause, collapsed and became unmarketable. In November, 1825, the gathering storm burst. A number of great firms went bankrupt. Within six weeks more than seventy country banks collapsed. In the ensuing panic the Bank of England was besieged for several days by frantic crowds anxious to exchange Bank-notes for cash. By the end of the year there were £20,000,000 worth of Bank-notes in circulation, while the vaults contained little more than £1,000,000 in specie. As one of the Directors said in his evidence before a Parliamentary Committee : "At the latter end of December, 1825, the amount of gold in the Bank coffers was miserably low. The timely issue of the one-pound notes worked wonders, and it was by great good luck we had the means of doing it ; for it happened that an old box

containing a quantity of one-pound notes had been overlooked, and they were forthcoming at the lucky moment. This, as far as my judgment goes, saved the country."

For this lamentable position the Directors of the Bank of England were themselves responsible. In January of the previous year the reserve had been £13,500,000. It continued to decline in succeeding months until in September of the following year it had been reduced by more than ten millions. Three months later it was down to £1,200,000.

Instead of adopting a prudent policy in this period of wild speculation, the Bank throughout 1824 and 1825 increased its issues with reckless freedom. Though depressed exchanges should have warned them that the position was critical, the Directors took no steps to protect their reserve; and it was not until the end of December in 1825 that the discount rate was raised to 5 per cent.

The demand for specie was unabated, and as in all times of panic, the people found hiding-places for their money at home, and would dole it out only for bare necessities. It was stated in Parliament by a Member of the Government that in December, 1825, even for gilt-edged securities like Government stock and the shares of the Bank of England it was difficult to find a market.

Though the Mint worked day and night to cope with the demand, the scarcity of coin was everywhere manifest. The position was made more

serious by the crash of the London Bank, which in its turn brought down sixty other financial concerns. Then followed the fall of thirty-six country banks. Other London firms were threatened with a like fate, most of which were saved by the timely assistance of the Bank of England.

The chief responsibility for this amazing crisis, which brought ruin and poverty to many thousands of homes, must rest with the public itself. The gambling mania affected all classes, and the amount of money invested during these fatal years represented one-third of the nation's wealth. Against this prodigal expenditure, no responsible leaders of public opinion made any protest, least of all the doctrinaires who were afterwards loudest in their denunciation of the Bank of England. Certainly in 1824, David Ricardo, whose enmity against the Bank never slumbered, had published his *Plan for the Establishment of a National Bank*. But this contained no reference to the crisis that was then rapidly developing, but merely outlined a scheme for a National Bank that would, in his opinion, perform exactly the same functions as the Bank of England, at a saving to the country of £750,000 a year.

It may be at once admitted that the Bank showed an astonishing lack of prudence in not contracting its issues when the drain of bullion for exportation was creating a specie famine. But nothing the Bank could have done would have averted the results of the public's extravagant folly.

In February, 1826, the attention of Parliament was specially directed in the King's speech to the crisis which had now subsided. Lord Liverpool, the Prime Minister, opened the discussion on the subject in the House of Lords by commenting unfavourably on the system by which credit was organised in the country. He thought it absurd that by the Act of 1709 the number of partners in a provincial bank of issue was limited to six, so that any small country tradesman, a fruiterer, grocer, or butcher, could open a bank, while the right of issue was refused to genuine companies.

In the House of Commons, Sir Robert Peel pointed out that the Bank of England's monopoly lay like a dead hand on the organisation of credit in this country, and demonstrated the superiority of the free Scottish system. While in England 100 banks had failed in 1793, 157 between 1810 and 1817, and seventy-six during the crisis which had just ended, in Scotland there was only a single bank failure on record, and even in that case the creditors had ultimately been paid in full.

In the *Theory and Practice of Banking*, published in 1855, even more appalling figures are given of country bank failures than Peel mentioned. In this the author states that in the twenty-eight years 1791–1818 no fewer than 273 commissions in bankruptcy were issued against country banks; and adds that if the usual proportion of three or four suspensions to one bankruptcy be allowed, we may calculate that more than a thousand banks

stopped payment in that period. To this must be added the failures in the crisis of 1825, numbering seventy-six.

Peel and other Members also strongly objected to the £1 notes then circulating. They believed that the use of these aggravated the dangers of over-issue, which was one of the worst evils from which the country suffered. Through their use prices were raised and speculation encouraged. In accordance with these views, the Bank Act of 1826 was framed. It was a singularly mild and ineffective measure. After the fulminations of Lord Liverpool, Sir Robert Peel and Huskisson in Parliament, the public certainly expected that the new Act would deal drastically with the country banks of issue and bring them under some measure of control or supervision. But nothing of the kind was attempted. The greater abuses of the credit system were left untouched, and some minor ones modified. As in the case of previous legislation, statesmen were confronted with the claims of vested interests, and the consideration of these prevented them from giving the country a sound and well-organised banking system.

By the Act of 1826 it was provided that no more notes under £5 should be stamped. The Bank of England was given permission to advance money upon " deposits and pledges."

Banks having more than six partners were now permitted to carry on business in England, with power to issue notes, but at a greater distance

than sixty-five miles from London, provided they have no establishments as bankers in London, and that all the partners were liable for the whole debts of the bank.

These banks were not to issue their notes at a place within sixty-five miles from London, nor draw any bills on London for a less amount than £50.

By these enactments the monopoly of the Bank of England was confined to London and a radius of sixty-five miles around. In compliance with the wishes of the Government, branches of the Bank were opened in the principal provincial towns.

As the Charter of the Bank of England was to expire in 1833, a Committee of Inquiry was appointed early in 1832 to consider various problems arising out of the English banking system, as well as the renewal of the Charter. At this inquiry evidence was taken on the subjects of the Regulation of Issues, the Desirability of making Bank-notes legal tender, the Operation of the Usury Laws and the Publication of Accounts of the Bank.

On the question of issues it is interesting to note that the Directors of the Bank were now unanimous in accepting the principle laid down by the Bullion Committee, that a paper currency should be regulated in accordance with the price of bullion and the position of the foreign exchanges. On this matter the Directors had noticed that the foreign

exchanges did not exactly follow the variations in the Bank's paper currency. As a Frenchman, M. Clement Jugler, pointed out, in making the adjustment it was necessary to reckon in the paper currency not only the direct issues of the Bank, but also those of the whole country, including bills of exchange, commercial securities, drafts and warrants.

With regard to note circulation, a Director of the Bank, Mr. Horsley Palmer, said that in principle only two-thirds of the assets ought to be invested in interest-bearing securities, and that one-third ought to be kept in reserve in bullion. Another Director of the Bank, Mr. G. W. Norman, endorsed this theory. Some bankers accepted this dictum as a practical working principle, but others, and those were the majority, pointed out that it was merely empirical, and had no absolute value as a safeguard.

On the question of making the Bank-notes legal tender, there was a sharp division of opinion. Afterwards in 1833, when a Bill was introduced in Parliament based on the recommendations of the Committee of Inquiry, Lord Althorp strongly advocated this alteration, and asserted that it would protect the Bank, when a provincial bank, fearing a run, was compelled to send for bullion to the Bank of England. The Bank, he pointed out, was liable to unexpected withdrawals for home use, and also suffered from the effects of every run on the country banks. This, at that

period, was only too common an experience in the banking world.

In Sir Robert Peel's opinion the question was one of confidence, and confidence could not be made to order. Certainly it could not be obtained by Act of Parliament. On this account he was opposed to the proposal for making the notes legal tender.

Through the operation of the Usury Law, the Bank was unable to make a higher rate of discount than 5 per cent. This seriously lessened the Bank's control of the money market and prevented the rate of discount from working freely enough to regulate the supply of currency.

These and other questions were dealt with in the Act (1833) based on this Inquiry. Its principal provisions were as follows:

The notes of the Bank were made legal tender.

The Act also permitted the establishment of joint-stock banks in London. These new banks were not permitted to infringe in any way the Bank of England's monopoly of note issue. But they were empowered to issue cheques, receive deposits, and carry on the general business of banking.

The Bank was enabled to raise its rate of discount above 5 per cent. so far as the discount of bills not having three months to run was concerned. To this extent it was exempted from the action of the Usury Law.

The Bank also received payment from the Government of one-fourth of its capital

(£3,630,000), which was thus reduced from £14,520,000 to £10,890,000. Against this the Government reduced the amount paid to the Bank for the management of the National Debt from £251,000 to £131,000.

The Bank was also to give the Chancellor of the Exchequer exact accounts of the amount of its bullion, the total of its deposits, and the number of notes in circulation. The *London Gazette* was to publish monthly the balance-sheet for the previous quarter.

By this Act the legality of joint stock banks which issued cheques was also established. The Charter of the Bank was also renewed until 1855, but the Government reserved the right to suspend it after the lapse of twelve years; but only on certain conditions.

It is difficult in these days to understand the violent opposition which the establishment of joint-stock banks in London excited among the proprietors of the older banking-houses. For they were days of violent political change, when the defenders of privilege, birth and monopoly were waging a back-to-the-wall fight against the champions of equal rights and popular liberty. The monopoly of the Bank of England was the last of those trading monopolies that was in existence before the first of the Georges ascended the Throne of Britain, and the Directors and proprietors of the Bank defended this old crusted monopoly with a violence and zeal astonishing in such staid City

gentlemen. They bitterly resented the intrusion of the new comers and were strongly opposed to parting with any shred or particle of the privileges they enjoyed. Rightly or wrongly, they regarded the monopoly of issue as a vested interest which time and long service had sanctioned.

For this attitude they could offer abundant reasons, and had claims on the nation's gratitude that could not be lightly disregarded. At the very moment of its foundation, the proprietors of the Bank handed every penny of their capital to King William, in order to save Europe and the world from the tyranny of the *Grande Monarque.* They also subsequently lent him large sums of money to help him in keeping up the unequal struggle. They provided the sinews of war that made Marlborough's campaigns possible. During the Napoleonic era the Directors of the Bank, as well as on other memorable occasions, allowed their loyalty to the State to outweigh business judgment and so sacrificed the interests of their proprietors to those of the Government.

But against this we now know that the new joint-stock banks had no wish or intention to undermine the authority of the Bank of England, or to interfere with its privileges. They were banks of deposit, not banks of issue, and they wished to have it made clear that they were legally entitled to issue cheques which were then coming into popular favour. The legality of this the Bank of England long contested in vain. Even after

the Act of 1833 the Bank of England did not desist from its opposition, but took advantage of the loose wording of some clauses in the Bank Acts to continue its warfare with the new institutions. Other old London banks were equally hostile to the newcomers.

The first of the joint-stock banks in London was the London and Westminster, which opened for business in March, 1834, under the management of Gilbart, one of the most brilliant economists and bankers of the day. For some time the new bank had many difficulties to encounter, through the jealousy and active opposition of its rivals. But Gilbart was a man of resource and had little trouble in dealing with his adversaries.

As an illustration of the obstructive tactics of the older banks, it may be mentioned that the Bank of England refused to allow the London and Westminster to open a drawing account, and the private bankers refused it admission to their clearing-house.

When some months later the London and Westminster Bank applied to Parliament for powers to sue and to be sued, and a private Bill was introduced and passed, the measure was stubbornly opposed by the Bank of England.

Following the Act of 1833 came a time of great prosperity. Before the end of 1836 no fewer than seventy-two joint-stock banks were established in England. The founding of these banks added greatly to the facilities of credit and helped

materially to lower the rates of interest. The success of the first railways, the wonderful expansion of foreign trade and the application of steam in various industries, foreshadowed developments previously undreamt-of. The lessons of 1825 and of other periods, when the speculative follies of fat years had been atoned for by the depression and poverty of lean ones, were forgotten. The shoddy promoter again raised his head, and the public, fevered by the gambling mania, rushed in to buy the gold-bricks he offered them. Companies, the nominal capital of which amounted to £135,000,000, were formed, the majority of which proved failures.

The crisis that followed was one of the most prolonged in economic history. Twice during its course the Bank of England was brought to the verge of ruin. After its reserves had run dangerously low in 1836 through its advances of gold to Ireland and America, gold flowed back in a steady stream in 1837, until the metallic reserve was more than ten millions. Then like a bolt from a clear sky, came news of the failure of the Bank of Belgium. Following this were demands for gold from France and America. At this period the Bank seems to have acted with less than its usual prudence. In November, 1838, its rate of discount was no more than 3½ per cent., which was lower than the market rate. Then, when the metal was doubly precious, and the exchange was unfavourable, it sent £1,000,000 to America on its own

account. Of this transaction Macleod, the eminent economist, says: "Of all acts of mismanagement in the whole history of the Bank, this is probably the most astonishing."

This carelessness at a period of such financial stringency had its natural results. The abnormal demand for gold plunged the Governor of the Bank into a sea of troubles, and he was at his wits' end to satisfy the wants of his clients. At last the situation became so desperate that he was compelled to apply to the Bank of France for assistance. This aid was promptly and generously given, in a loan of £2,500,000. After September, 1839—when the reserve was under £2,500,000—the pressure on the Bank's coffers gradually subsided, though banking conditions were still deplorable. In the provinces they were shocking. In the four years ending 1843 no fewer than sixty-three country banks suspended payment. These in their turn brought about many commercial failures, with their consequent train of misery and destitution.

It was now evident to statesmen and economists that much of the trade depression of previous years was due to the faulty organisation of the English banking system. Its defects and weaknesses were gross and obvious; so obvious that there arose an outcry for reform. The subject was eagerly debated in Parliament and the Press. Merchants and manufacturers sent memorials on the matter to the Prime Minister. In counting-houses and at dinner-tables the conversation veered from the

subject of the Corn Laws to that of Banking Reform. A hundred remedies were suggested in the newspapers and the pamphlets that poured in a steady stream from the presses.

But Sir Robert Peel, the Prime Minister, needed little urging. He understood the need for banking reform as well as any of the agitators; he knew also the futility and danger of hasty and ill-advised legislation, and considered his plans with care.

The Bill which he introduced into the House of Commons early in 1844 dealt with the problem of regulating the issue of notes, and that of fixing a safe proportion between the amount of the notes and the reserve of specie that was kept for their redemption. By this Bill, afterwards known as the Bank Charter Act, 1844 (7 & 8 Vict.) "the control of the issue of bank-notes was," as Mr. Walter Leaf says in *Banking*, "taken out of the direction of the Bank of England, and rendered automatic."

The method adopted was as follows: A new Department was established at the Bank of England, known as the Issue Department. This was kept distinct from the banking side. In effect, there were now two Banks—a Bank of Issue and a Bank carrying on the ordinary commerce of an institution of this kind, taking deposits, discounting bills, and advancing money on approved securities. The Departments were also required to make separate returns of their position weekly, and to publish them in the *London Gazette*. The

Bank was authorised to issue notes to the value of £11,000,000 on the security of the Public Debt, and £3,000,000 on Exchequer and other securities.

It was also provided that the Bank must hold bullion in the Issue Department to the value of the extra notes issued.

Banks which were then issuing notes were permitted to continue doing so; but the amount issued was in no case to exceed the average amount of notes in circulation for the twelve weeks preceding April 27, 1844. There were to be no new banks of issue; and if any issuing bank joined a joint-stock bank. or by amalgamation increased its number beyond six, the right of issue was lost altogether. In this event the Bank of England was permitted to increase its fiduciary or uncovered issue by two-thirds of the amount of the cancelled issue. Through the operation of this proviso the Bank's fiduciary issue had been slowly augmented until it now stands at £19,750,000.

By this Act it was also provided that all persons might demand of the Issue Department notes in exchange for gold bullion, at the price of £3 17*s*. 9*d*. per ounce of standard gold.

The Charter of the Bank was also extended until August 1, 1855.

When making the notes of the Bank of England legal tender, Parliament had done nothing whatever to safeguard the interests of the nation which guaranteed their convertability. This singular omission was now remedied by the Bank Charter

Act. Another effect of the Act was that the grand total of the fiduciary issues for the whole country was reduced by one-third of the amount of the provincial issues, and that ultimately the control of issues was vested in the Bank of England.

But the Act deprived the Directors of the Bank of freedom of action. As a German economist expressed it at the time, Peel's Act was "a strait waistcoat." It was allowed to increase its issues only by increasing its stock of gold. But if it lost the liberty to issue notes at its own direction, its influence over the market was greatly increased.

The country banks had long been a source of danger to the Bank's credit and solvency. The reckless over-trading of these ill-managed institutions had several times produced periods of panic, the brunt of which had fallen on the Bank of England and brought it to the verge of ruin. Whenever any of these country banks collapsed—and they fell like ninepins at times of crisis—the Bank was besieged by a clamorous crowd asking for accommodation. It was, as Professor H. S. Foxwell says, "practically responsible for the solvency of this crowd of small institutions, but dared not call them to account, on peril of provoking a general collapse of credit."

Now the restriction of issues freed it from this nightmare.

Of the system imposed by the Bank Charter Act, Mr. Walter Leaf says in *Banking*: "On the whole the new system may be said to have worked

fairly well till the outbreak of the Great War. But it had one great fault; it was too inelastic to meet extreme cases of panic. It was, in fact, too slow in action. It used to be an old saying in the City that '7 per cent. will bring gold from the moon'; but it takes time to bring it even from Paris."

The force of Mr. Leaf's criticism is illustrated by the fact that during the ninety-two years since the Act was passed, it has been temporarily suspended four times—in 1847, 1857, 1866 and in the opening week of the Great War in 1914. On each of these occasions confidence was speedily restored by the publication of the news that the Bank Act was suspended.

The Bank Charter Act, since the day it became law, has occasioned endless controversy. Crowds of critics have hurled their darts at it. With the passing years, conditions have changed. It seems a clumsy piece of machinery ill-adapted to modern needs; but it still holds the field. To many writers of authority, the division of the Bank into two separate Departments seems unnecessary and even foolish. So eminent an economist as Mr. Palgrave, in his *Bank Rate and the Money Market,* attributes to this division many of the fluctuations in the discount rate that occur in the London money market. He further points out that this involves the separation of its resources into two parts, on the smaller of which the demands fall, and so renders the amount actually available to meet any

sudden demand smaller than it would be if the Bank was undivided.

Theorists have condemned the organisation of the Issue Department, on the ground that it was foolish and absurd to fix the fiduciary issue of notes at £14,000,000 in 1844.

The answer to this may be found in the early history of the Bank. Readers will recall that when this institution was first established, the Government of the day borrowed the whole of its subscribed capital and allowed the Bank to issue Bank-notes to the amount of the sum borrowed. As further loans were made, the same practice was followed. In the present case the Government was merely following the same procedure; and as it was indebted to the Bank to this amount, there was no risk to the State in granting this privilege. More to the point is the criticism that a fixed issue is illogical in a country the capital of which is a centre of world trade. For there must be times of crisis when a fixed issue would be insufficient to meet the requirements, and others when it would be more than abundant.

But whatever defects the Bank Charter Act may have, it has served the mercantile world well for more than three-quarters of a century. Rigid and inelastic as it is, it has replaced the ramshackle structure that represented the English banking system in the early 'forties by a stately edifice raised on foundations of financial stability.

Critics who point to the fact that the Bank

Charter Act has been suspended on four occasions—though only for a few days in all—adduce this as a proof that the Act has been a failure.

Nothing could be further from the truth. Whenever the Act has been suspended, it has only been for a day or so, at most. People have grumbled and criticised it, but there has never been any question of its repeal. Peel himself anticipated, as a letter which he wrote to Cotton, the Governor of the Bank of England, on June 4, 1844, shows, the possibility of suspending the Act. This letter, quoted by Professor Andreades in his *History of the Bank of England*, says: "My confidence is unshaken, that we are taking all the precautions which legislation can prudently take against the recurrence of a monetary crisis. It may recur in spite of our precautions, but if it does, and *if it be necessary* to assume a grave responsibility for the purpose of meeting it, I daresay men will be found willing to assume such a responsibility. . . . I would rather trust to this, than impair the efficiency and probable success of these measures by which one hopes to control evil tendencies in their beginning, and to diminish the risk that extraordinary measures may be necessary." Here we notice that the great statesman foresaw the need for a second line of defence in times of emergency.

The fourth decade of the nineteenth century has been appropriately termed "The Hungry 'Forties." In its early years there was an abundant supply of

food. The harvests of 1842, 1843 and 1844 were plentiful enough to take the sting out of the attack of the Corn Law Repealers. England became more independent of foreign produce, and as little money was required to pay for imports, gold flowed into the Bank in a steady stream, and its discount rate was lowered to 1¾ per cent.

Then came a sudden and disastrous change. The potato crop of 1845 in Ireland was a failure, and the peasantry of that country were reduced to a state of misery and poverty they had never known before. But the potato crop of 1846 was even worse. The rains that washed away the Corn Laws in England brought the people of the sister isle face to face with starvation. Hunger stalked through the land as it did in the England of Piers Plowman, and many died through lack of food. The world was moved to compassion by the sufferings of the Irish people, whose numbers were reduced by two millions through famine and emigration. The English Government took prompt measures to deal with this unparalleled situation, and immense quantities of grain were imported for the hunger-stricken victims.

A vast amount of bullion was exported to pay for these imports and by January, 1847, the Bank's stock of specie had fallen to £13,940,000. Its rate was then raised to 3½ per cent. But as this did nothing to stop the outflow of money, the rate was again increased on April 10 to 5 per cent. The Bank's stock of money, despite these stiffened

rates, still continued to dwindle. The Bank had now less than £10,000,000 in bullion, while its reserve shrank to £2,558,000.

In the money market the dealers became nervous and then panic-stricken. The demand for notes increased, the public began to hoard, and there were now signs that the Bank Charter Act was to have its first real test. The Directors of the Bank decided to discount only short-dated Bills at the existing rate, which left the market to find its own level. Freed from the Bank's competition, the private banks raised their discount rates to 10 and 12 per cent.

For a time the situation was easier. The Bank's reserve rose to £5,625,000, and its stock of gold to more than £10,000,000. Then, when everyone thought the crisis was over, the storm broke. The bottom suddenly fell out of the corn market, when dealers were assured of a good harvest. Wheat in May had been as high as 131*s.* It now collapsed to 49*s.* 6*d.* There was a slump in other cereals, and potatoes were now almost valueless. Corn-factors and millers found themselves faced with ruin. Comfortable, easy-going merchants, after spending a lifetime in prosperous trading, were compelled to throw themselves on the mercy of their creditors. Dealers with stocks on their hands which they could not sell, except at give-away prices, implored their harassed bankers to help them. Everyone was nervous and apprehensive, knowing not who would be the next

victim. The tide of disaster which began its course in August, 1847, gathered force like an avalanche and engulfed many important business houses. In less than three months, failures, involving liabilities of £15,000,000, were recorded. Many firms in the export trade were involved in the common ruin.

The Bank of England made strenuous efforts to stem the tide of disaster. The till was emptying fast and the reserve shrinking, but the Directors nerved themselves for a still mightier effort, as they knew that the worst was still to come. Extreme measures were imperative, and they had the will and resolution to take them. At the beginning of October they issued an announcement that the discount rate would be raised to 5½ per cent., and that for the time being no advance would be made on public stock or Exchequer bills.

At this news the panic-monger became vocal, and his strident voice sounded above all others, in street and market-place. The hoarder, true to his selfish instincts, also made the situation more difficult by withdrawing his store of gold and notes from circulation. Samuel Gurney, the banker, when giving evidence before the Committee that enquired into the crisis of 1847, stated that the value of the notes hoarded on account of the terror of being beggared felt by some people amounted to between four and five millions.

Another effect of the Bank of England's announcement was a heavy fall in Consols, which

declined on October 5 from 84½ to 77¾. Exchequer Bills, which the Bank now refused to negotiate, fell 35 per cent.

So far, the Banks had weathered the storm and only one firm, Messrs. Cockburns & Co., of Whitehall, had closed their door. But the pressure had become so intense that only the most powerful institutions could resist it. As though at an appointed signal, a number of provincial banks crashed, one after the other in quick succession. The first of these, Messrs. Knapp & Co., of Abingdon, closed its doors on October 13 ; then followed the Royal Bank of Liverpool, and after this many more in Liverpool, Manchester, Newcastle-on-Tyne and the West of England.

The trade of the country was within measurable distance of utter ruin. The Bank of England had made immense sacrifices and done everything possible to avert the crisis. Many mercantile houses were saved from bankruptcy by its timely help. More than £1,600,000 was advanced to provincial and Scottish banks. One large joint-stock bank in the country was saved by an advance of £800,000 beyond its usual discount limit. £150,000 was advanced to a large firm in London, on security of debentures of the Governor and Company of the Copper Miners of England. Through this assistance, a failure with liabilities of several millions was averted.

In addition to these, money was lent to many other firms in London and the provinces, particu-

lars of which need not be given here. It is sufficient to quote the tribute paid by the Chancellor of the Exchequer, Sir Charles Wood, to the Bank in his speech during a House of Commons debate on November 30, 1847: "The Bank of England," he said, "was pressed directly for assistance from all parts of the country, and indirectly, through the London bankers, who were called upon to support their country correspondents. . . . Two bill-brokers had stopped, and the operations of two others were nearly paralysed. The whole demand for discount was thrown upon the hands of the Bank of England. Notwithstanding this . . . the Bank never refused a bill, which it could have discounted at another time; but still, the large mass of bills which under ordinary circumstances are discounted by bill-brokers could not be negotiated."

The Bank of England was now almost at the end of its resources and could do no more to retrieve the situation. The Bank Charter Act had rendered it impotent. *The machinery of trade was at a* standstill. The money that would have kept the wheels moving was in the strong-boxes of the hoarders. Those who had accumulated heavy stocks of cash were insistently clamouring for more. The coffers of the Bank were almost empty, and the Governor had now no alternative but to ask the Government for assistance. On October 25, an official letter was sent by the Chancellor of the Exchequer to the Governor of the Bank,

stating that the Government would propose a Bill of Indemnity to Parliament, should notes be issued in excess of the limit fixed by the Act of 1844, provided that the discount charged was not less than 8 per cent. In that the Bank should not gain any pecuniary advantage from this licence, it was further stipulated that all profits resulting from the additional issues were to become the property of the Government. The Chancellor's letter proved as potent as the magician's wand, and its effect was instantaneous. Fear, which had made the crisis acute, was now banished. Public confidence was restored. Not only was the run on the banks stopped, but the unabashed hoarders lost no time in bringing back the notes and gold they had secreted.

In the autumn of 1847 the Government proposed the appointment of a Committee of Inquiry in order to discover the causes "of the recent commercial distress." In the debate on this motion, Sir Robert Peel made a spirited defence of the Bank Charter Act. He admitted that the Act had failed in its first object—to prevent panic and confusion—but attributed the crisis largely to the Bank's lack of resolution "to meet the coming danger by a contraction of its issues." The Act, however, had "two other objects of equal importance: to maintain and guarantee the convertibility of the paper currency; and to prevent the difficulties that arise at all times from undue speculation being aggravated by the abuse

of paper credit in the form of promissory notes." Peel claimed rightly that these objects had been achieved. After approving the action of the Government in suspending the Act, he insisted that the Bank of England should be kept under proper control. "Some restrictions," he said, "you must impose, for after the experiences of 1826, 1836 and 1839, I for one am not content to leave the regulations of the monetary concerns of this country to the uncontrolled discretion of the Bank. In 1844 the general conviction was that it ought not to be so left; and I for one know no better mode of imposing restriction than that which was devised by the Act of 1844."

From the Report of the Inquiry of 1848 we learn the views of the Governor and Deputy-Governor on the working of the Bank Charter Act. These gentlemen—Mr. Morris and Mr. Prescott—had little but praise for the Act. They stated that it had attained its main object by ensuring the convertibility of the notes; that it had tempered the severity of the crisis. They also reminded the Committee that the commercial distress "was inevitable and had nothing to do with the Act." They were strongly of opinion that no modification of the Act was necessary.

The crisis of 1846–47 was, as the Governor of the Bank asserted, inevitable, and due to causes that no legislation could have prevented. The Duke of Wellington's remark that "Rotten potatoes have done it all. • They put Peel in his damned

fright," alluded to one of the causes that brought about the repeal of the Corn Laws. Rotten potatoes in Ireland and bad harvests in England were in some measure responsible for the unsettled monetary conditions of those troubled years. To these we have already referred. Another and potent cause of the mischief was the railway mania. The sums spent in railway development in the 'forties rose by leaps and bounds. By 1843 the total annual expenditure had risen to about £4,500,000. In the following year it jumped to £17,870,000. In 1845, projected railways absorbed as much as £60,824,000. For 1847 we get the stupendous total of £132,096,000. In addition to this heavy absorption of national savings, there was much feverish speculation in railway shares.

Finally came the pricking of the bubble, with the falling prices of grain, in the autumn of 1847, and the bank failures that followed.

The crisis which followed in 1857 was like its predecessors, due to over-speculation ; but in this instance the seat of the trouble was in America. In the United States 21,000 miles of railway had been constructed in the eight years ending 1857, at a cost of £140,000,000. Most of this money had been borrowed in Europe. In England, also in the same period, 4,000 miles of railway had been constructed. In the States the number of banks had doubled in ten years, many of these being established with insufficient capital. Fresh discoveries of gold gave an impetus to the rate and range of

development, which was already too rapid. For, as Van Holst points out in his history of the United States, time is an essential factor in every process of development. The Americans paid a heavy price for their impatience. On August 24, 1857, the Ohio Life Insurance Co. failed for seven million dollars. Wall Street was stricken with panic. The Philadelphia banks suspended payment on September 26. A few days later three leading railway companies were in the hands of receivers, and 150 banks failed in Virginia and other states. The trouble spread to New York, where out of the sixty-three banks only one succeeded in weathering the storm.

These events naturally caused deep concern in England, where several important firms with American connections suspended payment. Suspension of payments by the Western Bank and the City of Glasgow Bank deepened the prevailing distress and increased the strain on the Bank of England. In their efforts to stem the tide of depression the Directors sent immense sums to Scotland and Ireland. Despite a constant shrinkage in reserves, they met every call upon them with unflinching courage, till at last, on Thursday, November 12, the reserve had fallen to £384,014.

They were now unable to go on for a single day unless the regulations of the Bank Act were relaxed. Had this happened, the foundations of the vast fabric of commercial credit would have given way, and red ruin and world chaos would have followed.

Once more the Chancellor of the Exchequer came to the rescue of the Bank with a letter permitting the Governor and Directors to exceed the limits of issue prescribed by the Act of 1844.

The Bank issued £2,000,000 worth of notes in excess of the prescribed limits, but actually only £928,000 were put into circulation. This was the only occasion in the history of the Bank on which the statutory limit had been exceeded. In 1847, as we have seen, a like permission to exceed the legal issues had been given, but public confidence had been restored so quickly that the Bank found it could carry on without issuing the extra notes.

The Civil War in America, the disorganisation of the cotton trade due to the war, the flotation of three hundred limited companies with a nominal capital of £504,000,000 in 1863–64, and the disorganisation of the money market due to exports of gold from America, were all contributory causes of the financial crisis of 1866. On the Continent also there were wars and rumours of wars to disturb the working of the machinery of commerce.

In February, 1866, the storm broke with the failure of two important banks, with liabilities of four millions. Trade grew steadily worse. Confidence in the stability of even the most wealthy firms was shaken. Bank depositors grew nervous and many of them withdrew their money and kept it under lock and key at home. In April the Bank rate was 6 per cent. In May it was raised by stages to 10 per cent. On May 10 it was publicly

announced that the important banking-house of Overend Gurney & Co. had stopped payment, with liabilities of £18,727,917. This was the greatest failure that England had hitherto known. As it held no less than eight millions in deposits, the news came as a stunning blow to thousands of the Bank's clients, and spread dismay among the general public.

The day following the Overend Gurney smash, known as " Black Friday," is still remembered in London as one of unrelieved gloom. In his letter to Mr. Gladstone, then Chancellor of the Exchequer, the Governor of the Bank stated that the Bank on that day had made advances of four millions, and its reserve was reduced to three millions. Once more the Government suspended the operation of the Bank Act, but this time the Directors did not find it necessary to make any excess issue of notes, as the Chancellor's statement in Parliament had restored public confidence.

But the crisis was not yet over, and in the following weeks a number of derelicts were stranded on the shore after the hurricane. Among these were a number of well-established banks, which had ample assets to meet all demands, but were not given time to realise them. These included the London Bank, which went down with liabilities of £4,333,877, after paying 50 per cent. of its deposits. The Consolidated Bank, which vainly tried to assist its neighbour, also shared the fate of the London Bank. A still more disastrous happening

was the crash of the Agra and Masterman's Bank, which had important Indian connections. Here the liabilities totalled £15,582,000.

In the House of Commons, Mr. Gladstone paid a well-deserved tribute to the part the Bank of England had played in this crisis. He said that on that Friday of ill-omen the Bank had made advances on Government securities of £929,000; on the following day a further £747,000 was lent; and on three succeeding days an amount of £2,874,000. He also stated that in five days the Bank had made advances upon bills and discounted bills to the extent of £9,350,000—making a total of advances and discounts in five days of £12,225,000.

Though the panic of May 11 quickly subsided, general commerce was unsettled for some months, and it was not until August 6 that the Bank of England lowered its rate of discount. By December its metallic reserves, which had been as low as £11,800,000, rose to £19,200,000.

Enormous sums had been lost by mercantile firms and many years elapsed before some of them recovered losses occasioned by the failures of the Bank and other debtors. Eastern banks suffered severely. The Asiatic Bank lost £142,000, and the Bank of Hindustan, China and Japan £87,796. Altogether the various failures, according to Macleod in his *Theory of Credit*, involved liabilities of £50,000,000. In addition to this, gilt-edged securities slumped severely, Consols falling to 85.

It had hitherto been the proud boast of bill-brokers and others that a 7 per cent. Bank rate "would draw money from the moon." But now they saw something that filled them with astonishment. Frenchmen, Dutchmen and other Continental nationals who had done much trade in this country were seemingly afraid to trust their money in English hands. There had often in earlier years been financial crises in England, but nothing like this had ever happened before. That anyone should lack confidence in England—the home of financial integrity—was as amazing to them as though the sky had fallen. In former days a 7 per cent. Bank rate would have drawn money from the ends of the earth. Now for two months the rate had stood at 10 per cent. and the foreigner ignored it! We of this generation witnessed a similar phenomenon when in 1931 "the flight from the pound" plunged our economic pundits into deepest gloom and caused them to utter dire predictions of disaster. The prophets of ill-omen were just as gloomy in 1866. They saw London losing its proud position as the centre of the world's money markets, and the early coming of the day when Macaulay's artistic New Zealander sketched the ruins of St. Paul's from a broken arch of London Bridge. That timid soul, Sir Stafford Northcote, is said to have raised his hands in fright and exclaimed: "There is a run upon England!"

The Earl of Clarendon's pompous circular, in

which he declared that Her Majesty's Government "have no reason to apprehend that there is no general want of soundness in the ordinary trade of this country," etc., only confirmed the suspicions that were felt abroad, and for a time the Continentals kept their money on the other side of the English Channel. This absence of foreign gold made for healthier and sounder conditions at home.

That terrific storm of 1866 had a tonic effect on British commerce. The losses then incurred were, in time, made good. Commerce was developed on safer lines. The banks that had suffered so much improved the technique of their business and developed a commendable degree of caution. Some of the weaker firms, whose very existence had been a source of danger to their neighbours, disappeared. Others, that had weathered the tempest, developed their connections and enlarged their sphere of influence. Public confidence was so completely restored that British credit stood as high in the world as it had ever done; and the foreigner, as of yore, looked upon England in general, and London in particular, as a Tom Tiddler's Ground, where gold and silver were scattered about in abundance.

Not for nearly half a century, when the Great War broke out, was there any serious financial crisis comparable with that of 1866.

CHAPTER X

THE BANK RESERVE

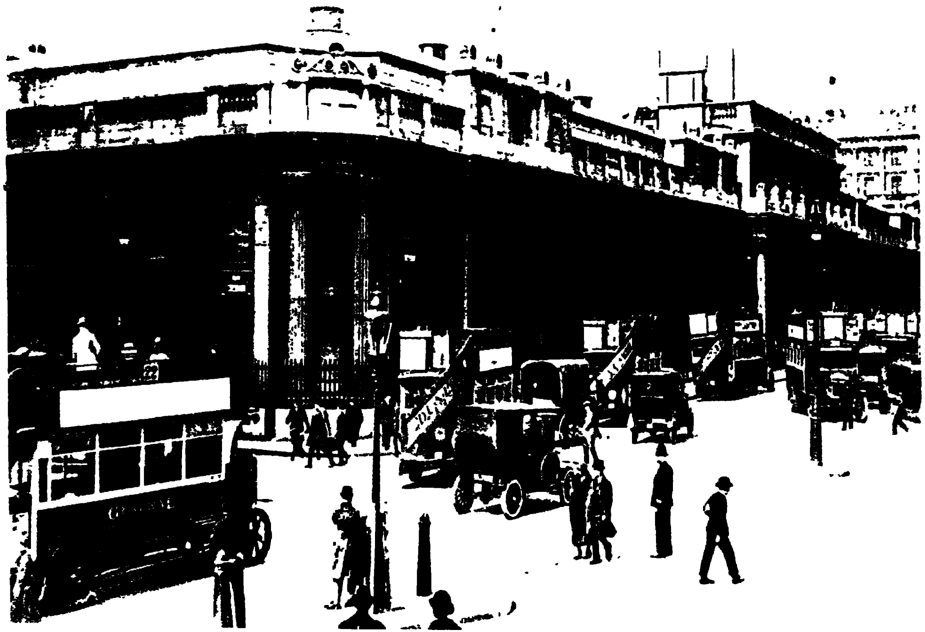
ONE important result of the crisis of 1866 soon became apparent. Public attention was drawn to the subject of Bank reserves. The question was keenly debated in Parliament and the Press featured it on their " splash " pages.

The Times in its leading columns expressed the opinion that the country would have been saved from disaster if the banks had kept reserves in hand for emergencies. It further suggested that an attempt had been made to convert the reserve of the Bank of England into the reserve of all the banks in London. That, as Walter Bagehot pointed out in the *Economist*, was precisely what had happened, and that for good or ill, the one-reserve system was firmly established in England, and the Bank of England had this in its keeping. He demanded assurances from the Bank that it would maintain a reserve at all times, adequate to support the credit of the internal banking system and meet the demands of foreign trade. He further urged the Directors of the Bank to realise that the other banks and the money market generally would expect it to render unlimited assistance in times of pressure.

The friends of the Bank of England, and some of its Directors, regarded this as dangerous doctrine and claimed that the Bank was merely one of several other institutions of its kind, and that as a dividend-earning business, its chief responsibility was to its proprietors. They further maintained, that to keep money idle in the form of a cash reserve greater than those of other banks, would handicap it in competing with other institutions.

These contentions Bagehot brushed to one side in his book *Lombard Street*, which was published in 1873.

Of this classic work it is not too much to say that it marks a new era in banking history. Its ideas, which sixty years ago seemed extreme and to some even revolutionary, are to-day accepted as orthodox banking doctrine. In this book he taught his contemporaries to realise that the Bank was the great stronghold that affords protection and safety for British commerce, and that, exposed as is its position, it is one from which there is no escape. With comprehensive perception he showed that the Bank in its two centuries of progress had, through the privileges conferred on it, and especially by the prohibition of joint-stock banking, acquired an unrivalled position; and that the concentration of all banking capital into its hands entailed responsibilities that could be neither shirked nor avoided. His demonstration of the vulnerability of this great institution, also, was calculated to shake the



The Bank of England before the Recent Alterations

complacency of its officers and proprietors. He pointed out that the whole fabric of British credit must rest on a most precarious foundation if the Bank neglected to maintain a large reserve in cash; and he went on to show what would happen in the event of a sudden demand for money. The smaller banks, which held their reserves in the form of balances payable on demand, with the Bank of England, would then withdraw these reserves, leaving the Bank to face the situation with heavily depleted resources.

On these grounds Bagehot urged that the rate of dividend on Bank stock was a secondary consideration, and that the national credit was paramount. His view prevailed generally, in business circles, though the Bank never acknowledged that it was bound to keep a metallic reserve for the whole country.

The ominous fact, noted by Professor Foxwell, that between 1844 and 1877 there were sixty-one occasions when the Bank Reserve was not sufficient to meet the London bankers' balances, gives point to Mr. Bagehot's criticism.

Critics there were, and among them some with long experience and great knowledge of finance, who, while agreeing that Bank Reserves should be adequate for all emergencies, felt that it was unfair to saddle the Bank of England with the sole responsibility and expense of maintaining this Emergency Fund. Sir Robert Peel was strongly of opinion that the joint-stock banks should be

obliged to meet their share of the expenses necessary to keep up a gold reserve.

Lord Goschen was even more emphatic. "It is a false and dangerous system," he said, "to rely simply upon the aid the Bank of England can give, in a crisis. I hold that the great banking institutions are bound to take their share."

It is impossible not to feel a large measure of sympathy with the Governor and Directors of the Bank, in the difficult and sometimes perilous course on which they had to steer their heavily freighted bark. They had conflicting interests to reconcile. Their responsibilities were manifold.

The Bank was indirectly responsible for the management of the country's currency. It was the bankers' Bank and held their ultimate reserves. It held and still holds the deposits of the Government Departments; issues Government loans, maintains the service of them; keeps the register of stocks and pays the interest.

Then there were its proprietors, who naturally expected dividends on their stock.

In its long history, the Bank of England had been the sport of bellicose kings, stupid politicians and indiscreet diplomatists. More than once, imperious statesmen have raided its vaults, and brought it to the verge of ruin. Many times it saved the over-sanguine speculator and the reckless trader from the consequences of their follies. In times of crisis and panic it had been a tower of refuge for many in financial need, and did much to

lessen if not to stem the tides of disaster that followed them.

In short, the Bank of England has a great and honourable record of service to the State. For its exclusive privileges, which excited the jealousy of its rivals, it has paid in full measure.

Can we wonder, then, that this small body of proprietors emitted a growl of protest when it was suggested that the Bank should shoulder the tremendous burden of national credit ? Was not this a responsibility that the nation itself should assume ?

Thus on the one hand we find the Directors of the Bank, in the years following Bagehot's vigorous polemic, manfully endeavouring to maintain an adequate metallic reserve for the whole country, by conserving its resources and guarding against the dangers of heavy exports of currency ; and on the other hand, keeping as little of its capital unemployed as possible, for the benefit of the proprietors. With these conflicting interests to serve, those who guided the fortunes of the Bank had to walk delicately. If they failed to maintain a sufficient Reserve, public confidence, on which the National Credit rested, would be shaken ; yet they could only raise it at the expense of their proprietors' interests, and these they were always careful to protect.

In response to the pleas and arguments of Bagehot and other economists, they gradually raised the proportion of Reserves to Issues, until in the

'nineties the Bank's position was, in this respect, superior to that of the Banks of France and Germany.

In 1872 the Reserve was only £12,100,000. By 1890 it had risen to £21,820,000. In the following year it was £24,377,000. In 1892 it was again increased and stood at £25,524,000. The following three years revealed remarkable increases—£34,414,000; £38,951,000, and £44,319,000. The last figures, for 1896, indicate a maximum; but they still maintained the level of 1894. For 1897 they were £35,551,000; 1898—£33,567,000; 1899—£32,268,000; 1900—£33,321,000; 1901—£35,831,000; and 1902—£35,644,000.

If we look at the Bank Reserve in relation to the liabilities of bankers to their depositors, we notice how frail and unsubstantial the basis of public credit was until 1914. In 1851, Mr. Newmarch estimated the total deposits in the banks of Great Britain and Ireland at £250,000,000. By 1901 these had mounted to £888,000,000, or, in other words, an amount seven or eight times larger than the whole stock of gold in the country. Against this, the Bank of England's Reserve amounted to £35,831,000.

Though the proportion of Reserve to Deposits has always been remarkably low, it is not without significance that since the crisis of 1866 there have been no financial panics in England. A crisis occurred in 1890, when it became known that Messrs. Baring Brothers were in difficulties, but

this was confined to financial and commercial circles, and the general public was not affected. There was no panic, and the lines on which this tangle was to be straightened out were settled before the man-in-the-street heard of its existence. The greater security enjoyed by depositors in the latter part of the nineteenth century was due, not only to the improvements which the Bank of England effected in its methods of dealing with credits and currency, but also to changes in the general banking system, the development of credit facilities, and the more widespread use of cheques in making payments. The country banks of issue, which in times of danger had so often plunged the Bank of England into a sea of troubles, were now dwindling in number and importance.

M. Leroy Beaulieu, the famous French economist, writing in 1901 (as quoted in Professor Andreades' *History of the Bank of England*), says: "From 1870 to the present day, England and the Bank of England—which have become the centre of the trade and finance of the world, which have in a measure to regulate all the exchanges and all the business affairs of the universe . . . have succeeded in playing their part without a suspension of the Act of 1844, and this during a quarter of a century characterised by the activity of business, and by financial and commercial crises. The Bank has always been able, in fact, to supply gold to those who demanded it not only to settle extra-

ordinary purchases of cereals and commodities, but for foreign loans and investments."

On the question of exchange facilities the author says: "Methods of attracting gold have multiplied during the last twenty-five years. International securities negotiable on a large number of different markets, the use of the telegraph for assignments and transfers of money . . . have produced a new state of things, in which a comparatively small reserve can be increased with much greater ease, and consequently tends to be exhausted much less rapidly than formerly."

CHAPTER XI

THE BARING CRISIS

For many years after the 1866 crisis, nothing happened to disturb the equanimity of investors, or cause more than a ripple of excitement in the money markets. The failures in 1878 of the West of England and the City of Glasgow Banks were disasters that brought acute misery and poverty to thousands of unfortunate depositors and shareholders, and weakened the faith of many people in the stability of banking institutions; but though these occurrences brought a trail of ruin in their train, they were local in their effects, and had little or no influence on the general trend of affairs in finance and commerce.

It was not until the summer of 1890—twenty-four years after the crisis of 1866—that signs of coming trouble became visible to the more discerning. As the days and weeks passed, the clouds on the horizon darkened and brokers and dealers in the money market saw in them the portents of a coming storm. At last the crisis came, but not spectacularly and dramatically, as in those of former times, though none the less dangerous or difficult to deal with on that account.

But if this crisis was different in its effects to the financial blizzards of the past, its cause was the old familiar one of over-speculation.

For two years previously, the gambling fever had possessed the souls of the more reckless class of investors, and these had been searching in foreign fields for enterprises that would yield big and quick profits. As usual, the ever-accommodating company promoter came to their assistance, and induced many of them to put good money into his questionable companies. In 1888 and 1889 a large number of new companies were floated, and people of means were buried under an avalanche. These enterprises were of all kinds—good, bad and indifferent; but a considerable proportion were launched for the sole benefit of their promoters. Many were companies designed to exploit the resources of the Argentine Republic, to which more than £65,000,000 had been lent by English speculators. According to the Returns of the Registrar of Joint-Stock Companies, the total amount of capital registered during 1888 was £353,781,594; and in 1889, £241,277,460. In addition to this, there was also considerable investment in the land mortgage bonds of certain Argentine banks.

In the autumn of 1889 there came a pause in this speculative rush. The financial position of the Argentine, which had been glutted with English money, was anything but strong, and prudent business men began to regard the situa-

tion with anxiety. Amongst others, the Directors of the Bank of England shared this view, and their convictions were strengthened when they observed that Consols were falling and that the Bank Reserve was taking a downward course.

It is evident that the views of the Bank Directors were not shared by the City, for when the Bank rate was raised to 6 per cent. the step evoked a growl of angry protest. Press and public thought that for once the Bank of England had been over-cautious. The joint-stock banks refused to support the Bank, and the general opinion was reflected in the market rate of discount, which never rose above 4½ per cent.

In February, 1890, the Bank had again to lower its rate without having attained the object of strengthening its Reserve. A few months later things began to happen. Though the financial outlook was now more threatening than ever, the little victims of the company promoter continued to dance to his piping, and a flood of new issues appeared on a surfeited market. Then as a curtain to the second act in this drama, the people of the Argentine indulged themselves in the thrills and excitement of a revolution. The news of this event fell on the market like a thunder-clap. The Bank rate, which had been down to 4 per cent., rose at once to 5 per cent. On November 7, it rose again to 6 per cent. On the following day it was whispered in bank parlours and other places where weighty secrets are known, that one of the

greatest of City houses was in difficulties. In a few hours more it was learned by those who had an interest in the matter that Messrs. Baring Brothers had suspended payment.

The name and fame of Baring Brothers was world-wide. They had been called 'the sixth European power, and their name was recognised in many lands as a symbol of strength and integrity. Some years previously this firm had acquired important interests in South America and had issued shares in the Buenos Aires Water Works Company. The issue was not a success. The investing public fought shy of the offer and Messrs. Baring Brothers were left with most of the shares on their hands. But they were also interested in other great South American undertakings, in which large sums of money had been sunk, but from which no immediate return could be expected.

Thus on November 8, 1890, although still perfectly solvent, they were compelled to suspend payment.

Two days later a well-known banker and a member of the Treasury Committee of the Bank of England began an enquiry into their affairs. Then followed a week of tension. Apart from the Baring affair, markets were anything but healthy; and as news from South America was the reverse of reassuring, dealers and brokers became jumpy and excited. The tongue of rumour, ever busy at these periods, became more active when it was

learned that there had been many sales of Consols and that the price had fallen to 93¾. Following this, came tidings that £4,500,000 of gold was to be imported, and that heavy parcels of Consols were again being thrown on the market. The next day brought the news that £750,000 of Consols had been sold in one line. Everyone now realised that something very serious had happened—they knew not what—and the uncertainty induced a feeling akin to panic. On the Friday it became known that a meeting of the representatives of leading banks was being held at the Bank of England, to discuss the affairs of Messrs. Baring.

At this meeting it was agreed, in view of the fact that though solvent the firm was unable to meet their liabilities, that the Bank of England should discharge the obligations due from Messrs. Baring Brothers, and that a guarantee fund which at first was fixed at five millions and afterwards at ten millions, should be maintained for three years, which would protect the Bank from actual loss.

This arrangement and the plan by which it had to be carried into effect must be placed to the credit of Mr. Lidderdale, the Governor of the Bank of England. By exerting influence in the right quarters he was able to secure all the gold needed for this gigantic operation—chiefly from the Bank of France. No suspension of the Bank Charter Act of 1844 was even necessary.

When the liabilities of the house of Baring Brothers were totalled, they were found to amount

to £21,000,000. The assets of the firm, taking into account the property of the partners, and calculating assets at their market price at the date of the suspension, exceeded liabilities by £3,000,000. The firm was reconstructed as a joint-stock company with a capital of one million. Within four years the guarantee fund was cancelled, and the firm of Baring Brothers & Co. resumed its old position of power and influence in the mercantile world.

The news of the arrangement made at the meeting at the Bank of England, coming hot-foot on the tidings of the suspension of Messrs. Baring Brothers, undoubtedly saved the City from panic; but the situation there was still very serious. It was known that many important firms had sustained enormous losses and were on the verge of bankruptcy. Private investors also suffered severely. The fate of Baring Brothers inspired general nervousness and on all sides the question was asked: "If a house of such eminence cannot stand, who is safe?" By great good fortune no bank failed, so that the country was saved from the widespread ruin and loss that marked former crises.

The one bright feature in these troubles of 1890 was the policy pursued by the Bank of England, under the direction of its Governor, Mr. Lidderdale. If, at the beginning of 1890, when the Bank raised the rate of discount to 6 per cent. the joint-stock banks had given it their support and pursued

the same prudent policy, a stock of gold would have been brought in that would have averted the danger of a crisis. The *Economic Journal* read the joint-stock banks a very severe lecture on the selfish policy they pursued, and added: " It is a great pity that the joint-stock banks did not take a wiser view of the situation, for if they had, and if the Bank had been allowed to strengthen itself in the early part of 1890, it would probably have been unnecessary to apply to foreign countries . . . when the crisis occurred in the autumn. The banks have got into the habit of regarding the Bank of England as of no importance, although it is the sole fund in existence to enable them to meet their liabilities *if called upon.*"

Failing to get support in the earlier days of the crisis for his conservative policy, Mr. Lidderdale had again to act when the crisis became acute and Messrs. Baring Brothers collapsed. It is not too much to say that the courage, breadth of vision, and decision he then displayed saved England and the world from a financial disaster of unparalleled magnitude. The address of thanks officially presented by a deputation of the Stock Exchange to the Bank of England was no empty compliment. It was rather a tribute of appreciation from City men who understood the supreme and vital importance of the services the Governor had rendered them and the mercantile world, in a period of stress and difficulty.

One of the political sensations of the late '80's

of the last century was the dramatic resignation of Lord Randolph Churchill from Lord Salisbury's Government. In this administration Lord Randolph was Chancellor of the Exchequer. He was then the most popular member of the Conservative Party, and had a great following among the electorate. This popularity secured him influence in the Cabinet as well as the House of Commons, but it also made him autocratic and dictatorial. He believed he was indispensable to the Government. But when at a Cabinet meeting he made certain demands to which Lord Salisbury, the Prime Minister, would not agree, he at once tendered his resignation. To his intense surprise —for he believed there was no one to replace him— his resignation was accepted, and he afterwards ruefully confessed that he had "forgotten Goschen."

But if the fiery and impetuous Randolph had forgotten Goschen, his party had not; nor had the City merchants and brokers who knew him not only as a man of great business knowledge, but as one who had a statesmanlike grasp of the wider issues of economic principles, and thoroughly understood the theory as well as the practice of international finance. His *Theory of the Foreign Exchanges* was also rightly regarded by bankers and financiers as one of the classics of banking literature.

No Parliamentary enquiry followed the crisis of 1890, as had happened in 1847 and 1866, but

writers on economics were deeply stirred by the events of the previous year, and readers whose tastes lay in the direction of the "dismal science" were bewildered by the avalanche of books and pamphlets on the subject that appeared. But excellent as some of these works undoubtedly were, none commanded so much attention as the speeches and letters of the new Chancellor of the Exchequer, Mr. Goschen.

In two speeches which he delivered on the crisis of the previous year, the Chancellor demonstrated the impossibility of framing legislation that would protect fools from the consequences of their folly, or markets from the dangers of over-speculation. He thought, however, that further legislation might be of use by negativing the effects of panics and preventing them from spreading. But in saying this he said it was not his intention to criticise the Act of 1844, and declared himself uncompromisingly "a Bank Charter Act man." He pointed out that this law had worked, on the whole, extremely well, but that in the interval of nearly fifty years circumstances had changed enormously, and the Bank of England no longer had the command over the money market which it formerly possessed. In the existing system he found two defects:

The insufficiency of the central stock of gold.

The want of elasticity, in times of crisis, in the system imposed upon the Bank.

He showed, as many critics had done before,

that the difficulty of rapidly attracting gold constituted a serious danger "in these days when combinations are so easy . . . when syndicates are so common" that an attack on the Bank's stock of bullion would be a most simple matter.

To remedy these defects, Mr. Goschen had two proposals to make. In a letter to the Governor of the Bank of England he outlined these as follows:

"The Bank of England is at present authorised to issue £16,450,000 on securities. Beyond that all notes must be represented by gold. The average amount of gold in the Issue Department for the years 1881–90 may be taken as £21,550,000, which if added to the £16,450,000—the authorised amount of the fiduciary issue—would give a total of £38,000,000, representing the average total issue under the provisions of the Act of 1844. I would disturb nothing up to this point, beyond authorising the issue of £1 notes under precisely the same conditions as those under which notes of higher denominations are issued at present. But beyond this limit of £38,000,000, I would authorise the issue of notes under the conditions which I have sketched, namely £4 on gold to £1 on securities."

If, under this plan, an additional sum of £25,000,000 was issued in the proportion of £4 on gold to £1 on securities, the addition to the stock of gold would be £20,000,000. This, if the stock of gold in the Issue Department stands at £21,550,000, would bring the total up to

£41,550,000; whilst the Note issue would be raised from £38,000,000 to £63,000,000.

Under this plan, Mr. Goschen pointed out, gold at the Bank could be augmented by an amount of £20,000,000, and the "increase in the fiduciary issue would be only £5,000,000; and that increase would be due to the introduction of £1 notes, which, if once acclimatised, would be far less likely to be presented for payment than £5 notes."

Finally, Mr. Goschen said that in times of emergency, he "would authorise the Bank to strengthen the reserve in the banking department by the issue of additional notes against securities, on paying to the Government a high rate of interest to be fixed by law. . . . The rate of interest must be neither so high as to make the permission inoperative, nor so low as to encourage people to speculate up to it. This additional authority to the Bank is intended to take the place of and prevent the necessity for the Treasury letter, by which the Bank Charter Act has been several times suspended."

Mr. Goschen's modest plan aroused little or no enthusiasm. Politicians were too much absorbed in the Home Rule issue to take any serious notice of it. Economists approved it, with reservations. The City disliked it. Press and public would have none of it, and looked with particular disfavour on the proposal to issue £1 notes.

Why the English people should have objected so strongly is a little difficult to understand. In

other countries like the United States, France and Germany, notes of similar value had for a long time circulated freely. In the United States, for example, no coin of greater value than a dollar circulated in a metallic form. To come nearer home, the £1 notes of the Scottish banks had for generations been a popular form of currency. Could this dislike of the £1 note have its origin in recollections of the £1 notes issued by country bankers some seventy years before? It is possible, for old memories die hard. Old people still recount stories told them by their grandparents, of the days before steamships and railways; and it is not impossible that the memories of the tragic sufferings and misery caused by the failure of many provincial banks are black pages in the histories of many families in the shires.

But whatever the cause of the objection to the new notes, popular feeling was sufficiently strong to cause Mr. Goschen to abandon his scheme of reform, and it was not until 1914, when the Great War began, that any radical change was made in our banking system.

CHAPTER XII

THE WORLD WAR AND AFTER

THE World War, the greatest calamity that has ever befallen the human race, began in the early days of August, 1914. It is unnecessary to dwell here on the momentous events that marked those days of trial and suffering. On the minds of many millions they have made so deep and indelible an impression, and have been the themes of such endless discussion, that it seems but idle repetition to recall them.

The Declaration of War by the Great Powers marked the end of one chapter and the beginning of a new one in the history of the world. Millions in the dawn of manhood perished in that conflict, and with them disappeared treasure that scarce a century's toil and sacrifice will avail to make good. Ambitious rulers and elderly statesmen decreed that the delicate machinery of International commerical intercourse, which had run so smoothly and profitably through long years of peace, should be scrapped; and in the twinkling of an eye the old pleasant relations between merchants and clients were severed, securities and Bills of Exchange sank to the value of waste paper,

and hosts of thriving and prosperous business houses were ruined.

A month before the War there were signs of coming trouble, that caused anxiety in many bank parlours and directors' rooms. The Serajevo tragedy hung like a black and menacing cloud over Europe, and depressed the spirits of even the most buoyant and optimistic. This feeling of uneasiness was deepened when on July 23, Austria-Hungary despatched an ultimatum to Serbia, demanding satisfaction for the Serajevo outrage and a reply within forty-eight hours. Many students of foreign affairs were now convinced that war would blaze up in Eastern Europe, but few guessed that the Balkan conflagration would spread like a prairie fire through the world.

The situation now developed with amazing speed and business men watched the course of events with ever-deepening anxiety. The Bourses and Stock-Exchanges echoed with alarmist rumours and international securities dropped heavily. On the 27th, four days after the despatch of the Austrian ultimatum, dealings on the Paris and Brussels Stock Exchanges were suspended. On the 28th, Austria-Hungary declared war on Serbia. Two days later the Russian Government ordered a partial mobilisation. On the same day the discount rate of the Bank of England was raised to 4 per cent. On the 31st the Bank rate was put up to 8 per cent. on receipt of news that an order for general mobilisation had been issued in Russia.

On the same day the London Stock Exchange was also closed, and the mid-August settlement was postponed until August 27.

Meanwhile the Hamburg Stock Exchange had been closed, and on July 31 the President of the Berlin Bourse issued an order to members that no prices were to be fixed. In France there was an insistent demand for gold, and the banks of that country were besieged by clients eager to procure the precious metal. On July 31 the Bank of France raised its rate from 3½ to 4½ per cent. On the same day the Imperial Bank of Germany, which had paid out 200,000,000 marks in gold to depositors, raised its rate of discount from 4 to 5 per cent.

A fortnight before the Declaration of War it became known to certain dealers from whom few financial secrets are hidden that the London branch of the Dresden Bank was selling its securities and advising its clients to do the same. Those who read the signs of the times aright, regarded this as a significant warning and prepared for the worst.

As the crisis drew to its climax, the pressure on the Bank of England and the joint-stock banks became intensified. So heavy was the public demand for gold that these institutions were compelled to call in their loans. This hit the bill brokers very hard, and they in their turn were compelled to seek accommodation at the Bank of England. As at all times of crisis, the Bank

followed its traditional policy, and did everything possible to help its clients. The bills of the brokers were discounted at 6 per cent. on July 30, but later in the day as much as 10 per cent. was charged for this service. On August 1, the Bank rate was fixed temporarily at 10 per cent.

During the next three days the new era in world affairs began. The curtain was raised for the first scenes in the great tragedy, and the spectators, all of whom were destined to play parts in its subsequent developments, watched it with dazed and fascinated interest.

Ever important to men and nations, money now became the prime consideration of the warring peoples. Money provides the sinews of war, and the control of the system under which it had been managed in England now passed from the hands of the bankers into those of the politicians.

Fortunately for all concerned, August 4, 1914, was a Bank Holiday. This holiday was extended for two more days, and during this interval the Government and the Bank authorities had a breathing-space, in which they were able to take necessary steps to meet this unparalleled situation. On August 1, the Government agreed to the suspension of the Bank Charter Act of 1844, so that the Bank could, if necessary, issue notes without holding gold against them. Only for a very short period was this permission to exceed the issue limit of uncovered notes taken advantage of.

A Bill was also rushed through Parliament and

became law on August 6, under which the Treasury was authorised to issue currency notes for £1 and ten shillings. Postal Orders also became legal tender for a short period. These currency notes were issued through the Bank of England to other banks. The banks could borrow these notes up to a maximum limit of 20 per cent. of their liabilities on deposit and current accounts. The banks were allowed to repay the whole or any part of these advances at any time.

The banks did not avail themselves of this extended credit for any length of time. At first advances totalled £13,000,000, but six weeks later they were down to £380,000. Shortly afterwards, this concession was ignored by the banks, and became inoperative.

Another measure for meeting the emergency was the General Moratorium of August 6. By this official notice, debtors were empowered to suspend the payments of debts payable before the date of the Proclamation for one month. Before this the money market had been assisted by a Bill Moratorium which had been officially announced on August 3. By virtue of this notice, acceptors of Bills were permitted to re-accept them for a period of one month from date of maturity. The General Moratorium, after some extensions, finally came to an end on November 4, 1914.

The outbreak of war brought the machinery of foreign exchanges to a standstill. The steady flow of money from all parts of the world ceased,

as by a pre-arranged signal. The brokers in the bill market found their occupation gone, for bankers were naturally unwilling, in the absence of remittances to London, to discount bills in the ordinary way.

To set the wheels going again, the Government finally agreed to guarantee the Bank of England against any losses sustained through discounting bills of exchange, either English or foreign, which had been accepted prior to August 4, 1914.

The following communication, giving effect to this concession, was made public on August 13:

> "The Bank of England are prepared, on the application of the holder of any approved bill of exchange accepted before the 4th day of August, 1914, to discount at any time before its due date at Bank Rate without recourse to such holder, and upon its maturity the Bank of England will, in order to assist the resumption of normal business operations, give the acceptor the opportunity until further notice of postponing payment, interest being payable in the meantime at 2 per cent. over Bank Rate varying. Arrangements will be made to carry this scheme into effect, so as to preserve all existing obligations."

This and much other help the Bank of England gave to its clients in those early critical months of the War, with the result that business began once more to resume its normal course, and the foreigner accustomed to dealing with London quickly realised that despite its war pre-occupations,

England's credit remained unimpaired. Of the £120,000,000 advanced by the Bank on Bills of Exchange, more than £115,000,000 had been redeemed three years after the close of the War.

Beside the issue of great public loans during the War, the Government raised immense sums of money through the agency of Treasury Bills. Treasury Bills were first introduced by Sir Stafford Northcote, when he was Chancellor of the Exchequer in 1877. They are a very popular form of short-term investment, and to war statesmen they proved a very present help in time of trouble. When war broke out in 1914 the amount of Treasury Bills outstanding was £15,500,000. In less than a year, liabilities on this account had risen to hundreds of millions, and in August, 1918, the amount awaiting redemption was £1,055,027,000. In July, 1921, it reached its maximum total of £1,207,187,000.

From a Report of the Transvaal Chamber of Mines (September 2, 1919) may be gleaned some interesting particulars of the war-time arrangements for transporting gold to London. Prior to August, 1914, the mining companies shipped their gold to London, where it was first refined by the producer's agents, and then sold at 77*s.* 9*d.* per standard ounce. But the War altered all that. An agreement was then entered into between the Union Government, the gold-mining companies, the Bank of England and the South African banks. By the terms of this, the Bank of England bought

the gold at *77s. 9d.* per standard ounce, and took delivery of it in South Africa, at the same time advancing 97 per cent. and afterwards 98¾ per cent. of the purchase-price against delivery, leaving the balance to be adjusted later. The producers had also to pay the cost of insurance and freight.

Since the War other arrangements for the sale of South African gold have been made. It is still consigned to the Bank of England, but the sale of the refined metal is in the hands of Messrs. N. M. Rothschild & Sons, the producers' agents.

The departure of England from the Gold Standard during the War was not a deliberate act. It was brought about gradually by the pressure of circumstances. During the closing months of 1914 the gold reserve was strengthened by the addition of twenty-eight millions of gold coin and bullion. But when in succeeding years munitions in enormous quantities came from America, the exchange was heavily against us, and nearly fifty millions of gold were exported to that country. After this the English gold market was virtually closed. Then followed the depreciation in the value of the pound, and the feverish contest between rising commodity prices and rates of wages.

In January, 1918, a Committee was appointed under the chairmanship of Lord Cunliffe, Governor of the Bank of England, to consider post-war problems in connection with finance and currency. In accordance with the findings of this Committee, the Bank of England was instructed by the

Treasury that during the year commencing January 1, 1920, currency notes should not be issued in excess of a total of £320,600,000, except against gold or Bank of England notes, and that afterwards the maximum fiduciary issue in any year should be the maximum amount actually attained in the preceding year.

Meanwhile in 1919 there had been a boom in trade, with prices continually soaring. In all businesses large profits were being made, and company promoters reaped a golden harvest. Then in 1920 came the slump so suddenly that industrialists in all trades were caught napping. A collapse so serious had not been seen in England for more than a century. When on April 15, 1920, the Bank rate was raised to 7 per cent. the bottom fell out of markets, and thousands of small concerns found themselves unable to sell their stocks except at ruinous losses.

Other countries suffered heavily from the slump, though few so severely as England. These abnormal conditions were due to the waste and prodigal expenditure of the War. The struggle came as a rude awakening to British statesmen, whose minds were absorbed in petty Party manœuvres. In the secluded atmosphere of Whitehall, they regarded world conditions with easy optimism and blissfully ignored the portents of the threatening storm. Caught unawares, they resorted to hasty improvisations, and short-cut expedients took the place of settled policy.

In dealing with finance, no attempt was made to meet war expenditure by extra taxation, which was a policy Mr. Gladstone not only preached but practised. Modern statesmen, more careful of their popularity, resorted to loans and the printing-press to supply their needs. Instead of asking taxpayers to tread the hard road of financial integrity, they invited them, as Mr. Hartley Withers trenchantly observes in *Bankers and Credit,* "to make money out of our country's needs." In this the War Budgets from 1914 to 1918 compare most unfavourably with those of Pitt and his successors during the Napoleonic wars. Even in the early and reckless days of Pitt's Ministry, the Bank of England still controlled its metallic reserves. But in the World War financial control was in the hands of politicians, and in consequence the National Debt mounted to figures that no economist can contemplate without alarm.

As we have seen, the Bank of England was originally founded for the purpose of providing William III with money for his ceaseless warfare with Louis XIV. What view the King and his Government may have taken of the Bank as a financial institution we do not know. Possibly they may have regarded it as of some value to the nation and the commercial classes, but its principal purpose in their eyes was to provide them with the sinews of war. In the nine years ending 1697, England's war with France cost this country

£32,643,764; of which £14,522,925 became a permanent liability.

During the eighteenth century, war engrossed the minds of English statesmen for at least half that period. But for the exhaustion of the long-suffering British taxpayers, this era might have been much extended.

After a breathing-space of five years the war between France and the High Allies was renewed in 1702. This war lasted for eleven years and brought renown to Marlborough and the gallant men who fought under him. But the victories of Blenheim and Malplaquet were but indifferent compensation for the loss of blood and treasure in those murderous campaigns. The senseless folly of the international rivalries that caused these barbarities roused the English people of those far-off days to justifiable anger. "Six millions of supplies and almost fifty millions of debt," exclaimed Swift in bitter scorn. "The High Allies have been the ruin of us." Swift's figures were approximately accurate. The actual cost of the war was £50,684,956: of this huge amount more than twenty-one millions was added to the National Debt.

In the forty years that followed, the added burden of debt which the Bank of England dealt with was £177,000,000. At the end of the American War of Independence, the country enjoyed the blessings of peace for a few years, an interval which William Pitt used to institute

several important financial reforms. But the respite of seven years was all too short for reaping any permanent benefits.

Then in 1793 began the war with France, which with one pause lasted until that memorable evening in June, 1815, when Waterloo was won. That war cost Great Britain more than 831 millions, of which 504 millions became a burden on posterity. These figures are eloquent. They tell, for those who understand their true significance, a story of indomitable courage, and the iron determination of that little nation of ten million souls to maintain its liberties and retain its financial integrity. Faced at times by a world in arms, weakened by former drains on its resources, crippled by abnormal taxation and an archaic and inelastic monetary system, this England of a century ago actually paid three-eighths of the current expenses of a war that lasted nearly twenty-three years.

The National Debts of this and other nations are so many tokens of human folly and misdirected ambitions ; for huge as their totals are, they represent only part of the money that has been spent on warfare in modern times. The large balance has been found by long-suffering taxpayers. Meanwhile, with chemists and other scientists devising new instruments of warfare, and the yellow Press demanding armed intervention whenever an opportunity arises for foreign interference, there seems little prospect that the Christian nations of Europe

will make any serious effort to reduce this mighty mountain of indebtedness.

The permanent part of the National Debt first came into the charge of the Bank of England in 1751, when it was consolidated. Before that time it was under the management of the Exchequer. At first the duties of the Bank were confined to the payment of interest. But with the passage of time and by developments almost too trivial for separate notice, the burden of responsibility was passed by the Exchequer officials into the willing hands of the Governor and Directors of the Bank. The duties of the Bank in connection with the administration of the Debt and the different rates of remuneration that have been allowed by the Treasury for these services have been defined in various Acts of Parliament.

When in 1786, William Pitt framed his ambitious scheme for paying off the National Debt, the Commissioners he appointed to take charge of the annuities, and the sums accruing from them, were also made responsible for the payment of the expenses in connection with the Debt. All the sums of money held in trust by these Commissioners were paid into the Bank of England.

The interest on the Debt was paid out of the Consolidated Fund. As sometimes it happened that there was not enough money in hand to meet the total amount payable to Fund-holders, special Exchequer Bills—known as Deficiency Bills—were issued, to adjust the differences. Afterwards

deficiency advances took the place of these bills, and, according to a Treasury instruction, these advances were to be repaid in the following quarter.

The Bank of England discharged all the duties entailed by the administration of the National Debt. This meant, even before the War, the existence of a highly systematised organisation. This, since the early days of 1915, when great loans were issued, has been enormously extended. The receipt and acknowledgement of payments from subscribers, as well as keeping separate accounts for each of these, is alone a mammoth task. But there are many others, including the control of transfers of stock, millions of registers, as well as the hundred and one duties that arise in so vast and specialised a business.

Before 1892 the Government paid the Bank of England as indemnity for the expenses of managing the National Debt £340 a year on every million pounds up to £600,000,000. Beyond this amount the commission was no more than £300.

By the Bank Act of 1892, the indemnity on each million pounds up to £500,000,000 was reduced to £325 a year; £100 a year was paid for every million in excess of this amount. Against this reduction of indemnity the Bank received an increased commission on the issue of Treasury Bills.

The management of the Floating Debt has in times of crisis provided the Treasury and the Bank with a succession of difficult problems. As we saw in an early chapter, the first Exchequer Bills

were issued by Montague during the coinage crisis of 1696, in order to supply the want of currency. In 1709 the Bank first undertook the circulation of Exchequer Bills, paying in cash £1,775,027 for them. In return they received 6 per cent.— 3 per cent. as interest, and 3 per cent. as repayment of the capital.

By the circulation of this useful instrument of exchange, the Bank on several occasions did the country and the world of commerce valuable service. After the Young Pretender's incursion into England, in the serious crisis of 1793, and in nearly every emergency when the nation's till was nearly empty, the Exchequer Bill was found a useful expedient for affording relief.

By the Act of 1834 (4 William IV) the Exchequer was reorganised and the office of Comptroller-General was established. This officer was given charge of the receipt and issue of the Exchequer and exercised the powers previously held by the Auditor of the Exchequer, the Tellers of the Exchequer, and the Clerk of the Pells.

The Commissioners of the Treasury exercised supervision over the reformed Exchequer.

It was further provided by this Act that as from June 12, 1834, all Exchequer Bills, notes and other securities for money which had hitherto been entrusted to the four tellers were to be paid into the Bank of England, and credited to "the account of His Majesty's Exchequer." In addition to this, all public moneys which had hitherto been payable

at the Exchequer were in future to be paid to the Bank, and placed to the credit of the Exchequer. The Bank was also instructed to send at the end of each day to the Comptroller-General a summary of all amounts paid into the Government account. On the Comptroller-General also devolved the duty of preparing, issuing and numbering the Exchequer Bills.

In 1866 the responsibilities of the Bank of England were increased, when, by the Bank Act of that year, it was provided that all Exchequer Bills and Bonds should in future be prepared and paid at the Bank.

Exchequer Bonds were devised by Mr. Gladstone, and put in circulation prior to the Crimean War, in 1853. Unlike Exchequer Bills, they bear interest at a fixed rate and for a definite period, generally three years. The interest on Exchequer Bills varies with market conditions, and is decided and published every quarter by the Treasury.

Sir Stafford Northcote, when Chancellor of the Exchequer, introduced the Treasury Bill, which is practically a short-dated Exchequer Bill, the maximum period of its issue being twelve months. Generally, however, Treasury Bills are issued for a much shorter period. Needless to say, the Treasury Bill is one of the most popular of credit instruments, and there is keen competition among bankers and other financial houses to secure new issues.

For the issue, circulation and redemption of

these different securities, the Bank received payment at the rate of £100 for every million pounds in Bills and Bonds in existence, on December 1, in each year. But this was prior to 1892. By the Bank Act of that year, the rate was raised to £200 for every million pounds.

It is interesting to notice in this and other directions, the gradual movement towards an ever-closer association between the Exchequer and the Bank of England. So intimate is this alliance that since the passing of Sir Robert Peel's Act of 1844, the Bank has been, in all but name, a National Bank.

This movement is due to several causes, but the determining factor has ever been the unswerving loyalty and patriotism of the Directors of the Bank, and their readiness to come to the aid of the State in every season of trial and difficulty. Indeed, most of the Bank's own troubles were due to this patriotism and loyalty, and on several occasions the proprietors of the Bank had good reason to complain that their interests were being sacrificed to those of the country.

At first, as we have seen, the King and his Government repaid this loyal attachment with rank ingratitude. For not only did they borrow every shilling of the Bank's capital, but they forced it to incur heavy liabilities in Holland and forego its dividends; and also, by breaking their promise to deliver the new coinage, compelled it to suspend payments. As if this were not enough,

the King and his Government lent its aid to Chamberlain's Land Bank, which was being launched for the avowed purpose of ruining the Bank of England. When the Land Bank failed to get in any subscriptions and collapsed, the Government once more turned to the Bank and asked it to increase its capital and accept depreciated tallies in payment of the new subscriptions.

Gradually, however, Governments ceased to regard the Bank as an institution that could be plundered whenever money was needed, and came at last to look upon it as a powerful ally; while in time the Bank, with its rapidly growing resources, gave new vitality to every department of State.

The names of statesmen who shaped national policy through two centuries of the Bank's progress, are household words—Montague, Godolphin, Walpole, Pelham, the two Pitts, North, Granville, Liverpool, Canning, Peel, Melbourne, Grey, Lord John Russell, Gladstone, Disraeli. These and others we know, but of the Directors who controlled the affairs of the Bank through the centuries, and carried through the financial operations instigated by these statesmen, we know little beyond their names. Yet through the integrity and prudence, the industry and vision of these comparatively unknown men, has grown the greatest and most famous of the world's banking institutions.

Much of this power is due to the Bank's ever-increasing intimacy with the State.

Before 1834, when the Exchequer was reorganised and the office of the Comptroller-General established, the Bank, in addition to dealing with the National Debt and raising loans, performed other important duties to the State.

When the Restriction Act was in force, and the Government accepted Bank-notes in payment of taxes, Bank officials went regularly to the Exchequer and collected the notes that had been received. Soon the inconvenience of this arrangement was recognised, and it was arranged that the various receivers of taxes should pay the notes directly to agents of the Bank, and that the moneys so paid should be placed to the credit of these receivers.

Gradually it became a custom of the Bank to take charge not only of revenues fixed by special laws, but of State revenues from all sources. In this way many funds, like those of the Savings Bank which were transferred in 1828, were handed over to the Bank of England.

In 1834—as already stated—the position was legally regularised, and in a circular issued by the Commissioners of the Treasury on September 26, 1834, it was stated that all public receipts, from whatever source, must be sent as soon as received, to the respective Receivers-General in London, who, in their turn, must pay the money each day to the Bank of England. It was also an instruc-

tion to the Bank that these sums should be entered to the credit of the accounts of the Receivers, and also to the account of the Exchequer.

By an Act of 1866 (29–30 Vict., c. 39) the office of Comptroller-General was abolished, and another was established; that of Comptroller and Auditor-General of Her Majesty's Exchequer. It was provided by this amending Act that the Bank should, as before, receive and credit the receipts of the Commissioners of the Customs and Inland Revenue and the Postmaster-General. The money thus credited to the Exchequer was to be regarded as a fund from which the Comptroller and Auditor-General could order transfers of moneys to the accounts of the Paymaster-General.

In its dealings with the Paymaster-General, the Bank keeps two accounts, in which all moneys placed to the credit of the Paymaster are entered. Of these, the Exchequer credit account contains details of the credits granted to the Paymaster-General by the Comptroller and Auditor-General. The other is known as the Paymaster-General's cash account, and records all sums credited to him by the Bank.

CHAPTER XIII

THE BANK AND PUBLICITY—ITS STANDING AND FUTURE

THE Bank of England has never courted publicity. Its critics point out that, unlike other economic and political institutions, it never seems to have published any reports. The Banks of France and Germany issue Annual Reports that contain a mass of valuable and detailed information. But these are National Banks, and the Bank of England has never been regarded by its Directors and proprietors as other than an Incorporated Company, responsible only to its clients and shareholders.

Though they do not publicly acknowledge them, the Governor and Directors of the Bank accept and wield much wider responsibilities; responsibilities that only the controllers of a national organisation could exercise. For in all but ownership, the Bank of England is a national institution. It holds the valuable monopoly of issue, fixes the rate of discount, controls the currency, keeps and renders an account of the State's revenues, manages the permanent and floating National Debt. In addition to this, it is also the bankers' bank, and holds the cash reserves of nearly every other bank in Great Britain, as well as those of many colonial

and foreign financial houses. It is also the mainspring of British commerce and its interests are world-wide. On its policy depends the prosperity of many thousands of mercantile firms, and the daily bread of millions of workers.

But of those not immediately concerned in its fortunes, the Bank, in accordance with tradition, takes no account. Much that happened in the first hundred years of its existence is veiled in mystery. Two of the Directors who founded it gave the world a sketchy outline of its purpose and policy. As we have seen above, William Paterson in 1694 wrote a pamphlet entitled *A Brief Account of the Intended Bank of England,* in which he defended the workable scheme he had outlined, and answered the arguments of his enemies. But the Bank was not then fully launched. Shortly before his death in July, 1695, Michael Godfrey issued *A Short Account of the Bank of England* in which he showed how much the Government and the commercial classes had benefited by the establishment of the Bank.

The examples set by these founders were never followed by succeeding Directors. They found in silence the better part, and never blazoned their affairs to the world. The action and policy of the Bank of England were often debated in Parliament, but as Parliamentary proceedings were not reported until the closing year of the eighteenth century, little or nothing is known of these discussions. From various Acts of Parliament and

the published accounts of the proceedings of other Institutions, like the South Sea Company, as well as from the bundles of pamphlets and tracts that were issued, we learn something of the Bank and its progress; but the information gleaned is tantalisingly meagre and unsatisfying.

It was not until the newspapers at last wrested from Parliament the privilege of reporting its proceedings that any clear light is thrown on the Bank and its history. From then onwards reports of Committees of Inquiry and Parliamentary debates furnished much valuable information; but to this store of knowledge the Governors of the Bank, or other Directors, make no contribution whatever.

When the Committee of Inquiry was held, prior to the passing of the Bank Act of 1833, witnesses recognised the necessity for the publication of the Bank's accounts. The only objectors to this were the Bank Directors. Mr. George Norman was willing to publish a quarterly statement, but Mr. Palmer flatly declared himself opposed to publicity, or the issue of any accounts.

Despite this opposition, Parliament decided, in the Act of 1833, that the *London Gazette* was to publish every month the balance-sheet for the previous quarter.

By the Bank Act of 1844, weekly accounts in a prescribed form were to be sent to the Treasury, and published in the *London Gazette*. This Return is in two sections, one relating to the Issue Department and the other to the Banking Department.

This excellent Return is regarded by some economists as the most valuable part of the Bank Act of 1844.

In the last forty years there have been remarkable changes in the organisation of the English banking system. Private banks in town and country have been swallowed up by one or other of the Big Five; and these mammoth amalgamations have strengthened the country's credit system and enabled it to stand four-square against the economic hurricanes that have blown through the world.

For millions of English workers, the years since the War have brought disillusionment and a feeling akin to despair. Instead of the Utopia they were promised by the politicians, they have suffered lower wages and loss of employment. They have been told by agitators and writers in some sections of the Press that their interests are sacrificed to those of international financiers; and when they read in the newspapers that there have been consultations between representatives of Central Banks, or that the Governor of the Bank of England has departed on a secret mission to France or America, they become resentful and angry, and are inclined to suspect some further conspiracy against them. This public discontent is due solely to the atmosphere of impenetrable secrecy in which these international conclaves are shrouded. When Mr. George Norman, the Director of the Bank already mentioned, was giving evidence

before the Committee of Inquiry in 1833, he made the pertinent remark that "generally the Bank will suffer more from ignorance than knowledge; even under the present system its affairs are not absolutely secret."

This statement has special force in these modern days when statesmen understand the value of judicious publicity and find it expedient, from time to time, to make pronouncements on questions of policy, and disclose important facts that affect the public welfare.

This is an example that might with advantage be followed by the Governor of the Bank of England and his co-Directors. Already there is unrest and suspicion among a considerable section of the electorate that is bred of ignorance and mischievous propaganda. The Labour Party demands the nationalisation of the Bank, and many of its members believe that the Directors use its funds to bolster up financial interests and defraud the worker of his rights.

Such an atmosphere of suspicion causes industrial unrest and breeds enmity. This could easily be dissipated if the Bank Directors would occasionally take the public into their confidence, and give fuller information than they do at present as to its principal monetary transactions.

The commercial world might say with truth, as Matthew Arnold said of Shakespeare:

> Others abide our question,
> Thou art free.

But all institutions, however venerable or august, must heed the raucous challenge of Democracy. Its call must be answered explicitly, for on that answer depends in great measure the stability and confidence that are essential to the maintenance of our national credit. Once the immense services which the Bank of England has rendered the country are known, and its position in relation to the State and the commercial world is more generally understood, the agitators will find their occupation gone, and the Bank will stand, as in the past, as a symbol of England's mercantile strength and influence.

After its earlier years of storm and stress, the Bank has for sixty-eight years basked in the sunshine of prosperity. The Overend Gurney catastrophe in 1866 was the last of the sinister events that brought it to the verge of the pit. Since then it has grown in stature and influence, and its position has become more definite. Throughout its long existence, the Bank's relations with the State have been close and intimate. Never were they so close and intimate as they are to-day. Though it was originally private property, conducted by private enterprise, it has been much more than that for many years. More than once the ship of State would have foundered but for the timely aid of the Bank; and in return British Governments have saved the Bank on two occasions when it tottered on the verge of bankruptcy. The simple truth is, the two are interdependent and.

neither could carry on without the other. The Bank, as the custodian of the nation's treasure, has the solid backing of the State, on which the ultimate responsibility for our currency and credit system rests.

It seems illogical to foreign observers that an institution like the Bank of England, which in all but form and name is a national bank, should belong to a corporation of private proprietors. It also seems strange to many of our own critics that British statesmen should be content to allow a company of proprietors to remain in possession of a monopoly granted in the time of the Stuarts. "Why should not the State," they ask, "shoulder its responsibilities and manage its own currency and credit system, like other nations?"

There is much to be said for this point of view. The Bank of England has been given the power of regulating the foreign exchanges and regulating the volume of credit in this country. According to the measure in which those national duties are performed, the fortunes of England and its commerce are affected. To maintain the exchanges and at the same time regulate the volume of credit so that steady trade conditions prevail, is, as we have seen above, a delicate and difficult task. But it is one for which the Bank of England should be responsible to Parliament and the nation, and not to a body of private shareholders.

For the aims of those who would nationalise the Bank and make it the shuttlecock of the politicians,

we have no sympathy whatever. Banking is a highly technical business that can only be conducted efficiently by men of experience who have a sound knowledge of modern trade conditions. During the War the politicians worked their will with the delicate and intricate machinery of credit. Folly and extravagance held sway. Money was flung away with a reckless disregard of consequences. Loans replaced taxation, and the war-profiteer waxed fat and prospered exceedingly. For those sins of the past we are now suffering, and for generations to come our people will be burdened with a heavy load of debt. If the financial management had been left in the hands of the bankers, the result would have been serious enough, but the burden of debt would have been appreciably lighter.

The Bank of England is typical of all our English institutions. It has vastly changed since Sir John Houblon presided over its Court in the reign of William III. It has been built up bit by bit in response to practical needs. As difficulties arose and new problems presented themselves, alterations or modifications were made, and it is in this sense that the Bank so clearly exhibits English character, an organisation not built up on any clear, definite place, but developed bit by bit, so as to serve the needs and requirements of succeeding generations. Cumbersome and archaic though it may seem to outsiders, it is yet a machine that works smoothly and efficiently, and is

admirably adjusted to the purposes it is meant to serve.

We cannot doubt that there are other developments yet to come, and that the Bank, sooner or later, will become in form what it already is in reality—a National Bank. When this happens the few carping critics who affect the belief that this mighty institution consults only the interests of its proprietors will be for ever silenced, and the only enemies of the Bank will be the enemies of England. That the nature of its operations will be changed we cannot believe, despite the altered economic conditions in which we live. But there may be other adjustments. The dividends of the proprietors may be guaranteed. The Currency Note Issue and the Bank of England Issue may be changed into a single issue ; and the Treasury will be represented in the Court of Directors. The other great Banks may also be called upon to bear a share of the expenses of maintaining the huge quantity of gold which is immobilised and held in reserve, partly for their protection and the security of their assets.

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